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Private-sector investment opportunities in primary healthcare in Kenya: Implementation roadmap

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Executive summary

Context for this work

The Sustainable Development Goals (SDG) Partnership Platform is a vehicle spearheaded by the Government of Kenya, with the support of the UN, to drive public-private collaboration and help realize Kenya's Vision 2030 and SDG aspirations. The SDG Partnership Platform has created several accelerator windows, the first of which was the SDG3 Cluster - Primary Healthcare.

In this context, USAID and the UN's SDG Partnership Platform launched a project to assess private sector investment opportunities in primary healthcare in Kenya. The project is divided into three phases: Phase 1 – identification of a set of private sector investment opportunities in primary healthcare; Phase 2 – identification of target companies/investors, development of an implementation roadmap, and syndication with key stakeholders; and Phase 3 – development of two signed Memorandum of Understanding (MOU) and/or Letter of Intent (LOI) related to a >\$1M investment opportunity.

This report summarizes the findings of Phase 2 of this work. It builds on the work conducted in Phase 1 that identified and measured the size of private-sector investment need in primary healthcare in Kenya. It identifies target companies and investors, outlines the implementation roadmap for a national agenda to encourage greater investment, and shares details of county-level investment opportunities.

The report is based on four major activities:

- Engaging 15+ investors and healthcare businesses potentially interested in investing in primary healthcare in Kenya
- Refining a set of 10 'big ideas' to improve the enabling environment for private-sector investment and developing detailed descriptions and roadmaps for these ideas, learning from relevant case studies
- Syndicating the roadmap with more than 30 experts and stakeholders, and presenting the Phase 1 findings and 10 big ideas at a healthcare CEO Roundtable and the SDG Partnership Platform Finance and Business Modeling Workshop.
- Examining three counties as examples to better understand county-level investment opportunities and what actions and incentives are needed at county-level to encourage greater private sector investment

Current investment pipeline

The investment pipeline in Kenya's public healthcare market is 'thin', particularly in light of the \$6 billion of private sector investment into primary healthcare that Kenya needs over the next 10 years. Through extensive interviews with healthcare businesses already invested in Kenya and investors looking at potential deals, we have identified 14 deals currently under consideration by the private sector. Of these, nine are over \$1

million in deal size. Based on the deal size, financial viability, practical feasibility, and other criteria, we have prioritized four opportunities as high potential for concentrated support to enable deal closure.

10 ‘big ideas’ for unlocking greater private sector investment

Given that the existing pipeline of potential deals is relatively ‘thin’, Kenya needs to strengthen the enabling environment to unleash a much larger volume of private sector investments. Towards this end, we have identified 10 ‘big ideas’ that would unlock much greater investor interest and deal flow. Some of these ‘big ideas’ are needed to remove current barriers to private sector investment in primary healthcare, others to better enable business case development in the primary healthcare space, and still others to ensure fair competition and market sustainability.

Enablers for specific sub-markets

1. **Risk pooling and outpatient care:** Drive incremental improvement of NHIF in parallel to passage of the amendments to the NHIF Act, establish sustainable coverage package(s) and fix payment delays issues at the National Hospital Insurance Fund (NHIF). Options could include creating a multi-tiered insurance package with combined risk pools within the NHIF, revising the NHIF reimbursement mechanism and/or levels, and reforming the NHIF payments process to eliminate delayed payments. These measures will serve to unlock private sector investments by allaying the current concerns about the sustainability of NHIF’s coverage packages and NHIF’s administrative efficiency, which are adversely affecting investment decisions.
2. **Risk pooling:** Increase efficiency of private medical insurance. For example, through digitizing the claims management process, benchmarking claim costs by disease type and benchmarking insurance companies’ operating costs against peers (e.g. per patient cost for maternal healthcare), as well as establishing a mechanism for monitoring adherence to the risk-based capital requirements in the Insurance Act. This is important for primary healthcare, given that ~70% of the population is currently uninsured and, even with the roll-out of UHC, the private insurance sector will likely need to be part of the solution to providing quality primary healthcare across the country.
3. **Pharmaceuticals:** Remove Kenyan importers’ preferential treatment in public procurement of pharmaceuticals and assess viability and impact of program to support local manufacturing
4. **Medical education:** Scale the provision of low-interest student loans to prospective medical education students; perhaps in return for post-graduate service in the public sector, e.g., counties participating in ownership and scale-up of the Afya Elimu model. Prioritize these loans for first for nurses, pharmacists and other entry level cadres of health workers where there is, by absolute number, the largest need in the country and thereby the strongest business case for investment, given these volumes.

Cross-cutting enablers

5. Reform policy framework to enable counties to participate in PPPs and structure public-private collaboration opportunities at county or bloc level.
6. Promote market-based approaches to make the sector less reliant on Official Development Assistance (ODA) and enhance sustainability of initiatives and impact.
7. Provide transaction support to potential investments, particularly at the early stage (e.g., commercial due diligence, business case development, financial modeling, and development of technically sound PPP concept notes).
8. Attract new investors by identifying and crafting specific opportunities for each sub-market and conducting large-scale investor engagement.
9. Raise and better enforce quality standards in distribution, diagnostics, and pharmaceuticals.
10. Create a public good around digital health data through a common digital platform to enable and de-risk private sector decision-making on investments (e.g., granular, sub-national disease burden data).

County-level opportunities and actions needed

Counties are critical stakeholders in securing and driving investment across the country. We selected three counties — Isiolo, Kisumu, Makueni — as examples in which to explore investment attractiveness, business opportunities and the incentives and other activities required to encourage investment. Our in-depth study of these counties indicated that four sub-markets offer promising private-sector investment opportunities: outpatient and maternity care, risk pooling, diagnostics and medical education.

For all four of these promising sub-markets, counties could do much more to facilitate investment, such as conducting pre-feasibility studies, defining which private sector participation structure would be most helpful for the county's health needs and hiring a dedicated person to engage with investors and other relevant bodies such as the PPP Unit in the National Treasury. Each dedicated county resource should, as part of their remit, stay connected to SDG Partnership Platform and request assistance from the Platform when there are specific transactions that could be supported.

To capture these county-level investment opportunities, companies will need to be prepared to allocate business development staff time and effort for data collection (e.g., on current and potential volumes, pricing), as these data are not available typically from county governments or third-party sources. Even when transaction support is being provided by the SDG Partnership Platform, companies that allocate significant management time and attention will get more out of the support provided. In addition, many opportunities will require a public tendering process (either for outsourced contracts or PPPs), so companies should ensure proper capacity allocation to participate in these processes.

Stakeholder syndication

We have syndicated the investment opportunities and enablers described in this report with a wide range of experts and more than 30 stakeholders. Based on their input, we have refined and adapted the roadmaps to fit the reality on the ground and build on existing efforts. Although stakeholder input has already been significant, it is only a start to a multi-year journey of improving the national and county-level enabling environment for unlocking much greater private sector investment in primary healthcare. Further work by the UN's SDG Partnership Platform will be needed to continue syndicate the results of this work to build buy-in, reflect evolving healthcare landscapes, and work with leaders and stakeholders implement the roadmaps detailed in this report.

Priority investment opportunities

We identified 14 investment opportunities in Kenya's primary healthcare market, and prioritized four of these for transaction support based on a set of criteria including deal size, feasibility, and match of support needed and offered.

Investment opportunities in Kenya's primary healthcare market

Kenya's primary healthcare investment pipeline is thin, particularly if we consider the ~\$6 billion of private sector investment needed over the next 10 years (see Phase 1 report¹).

We identified 14 investment opportunities in two categories. These include both investor-driven opportunities (e.g., by private equity funds) as well as companies seeking investment to expand. These opportunities span several sub-markets, including outpatient and maternity care, distribution and retail, pharmaceuticals and diagnostics. The investment size ranges from \$0.5 million to \$20 million. There is also a wide range of geographic coverage within Kenya, with several covering urban/peri-urban areas, several others focused on more rural areas, and several that are national in scope. The companies are at different stages of the investment process; one has just started of a 10-month feasibility study, while another is ready to sign a letter of intent.

Prioritized opportunities

Of the 14 opportunities identified, we prioritized the four that are both sizeable and that we believe have the potential to move from deal development to deal closure stage before mid-2019.

Specifically, we used the following criteria for prioritization:

- **Deal size:** Minimum \$1 million.
- **Timeline:** Investment likely to close by mid-2019.
- **Economic viability:** Profitability, evidence of business model applied successfully in other countries/markets.
- **Practical viability:** Obstacles to mid-2019 closure, e.g., investment requiring legislative reform such as the PPP Act, or dependency on other transactions.
- **Potential support needed:** Manageable, practical scope in terms of size of analysis required, geographic reach and data availability.

¹"Today, the Kenyan private sector represents ~45% of the healthcare market, but this varies significantly by sub-market. This private sector share is expected to increase to ~50% over the next 10 years through the replacement of both public and donor participation. Supporting this level of private sector participation, will require ~\$6bn in investments over the next 10 years. This includes a ~\$4bn investment in new assets (to support the forecasted growth in spend) and a ~\$2bn investment in replacing existing assets." – Private sector investment opportunities in primary healthcare in Kenya

- **Social impact threshold:** All investment opportunities are assessed to ensure that they contribute positively to primary healthcare in Kenya and have a clear linkage to delivering social impact and driving equity.

This prioritization resulted in highlighting four opportunities, details of which have been shared with USAID staff overseeing this project (redacted in this public report). All four of these deals are by for-profit companies, although at least two of them would further define themselves as social enterprises (for-profit companies with social motives at the heart of their mission).

Ten ‘big ideas’ for unlocking greater private sector investment

As noted, the existing pipeline of potential investments in primary healthcare in Kenya is thin. To strengthen the pipeline, we have identified a set of 10 ‘big ideas’, i.e., enablers that will help unlock much greater investor interest and deal flow.

These ‘big ideas’ are either specific to sub-markets, or cross-cutting:

- **Specific sub-market enablers (1-4).** We focused on identifying enablers for sub-markets that have big investment needs over the next decade, but are less attractive to investors in terms of profitability and deal size, as identified in the Phase 1 report. The rationale is that Kenyan leaders’ and stakeholders’ time and energy are better spent bolstering the enabling environment for these large, relatively untapped areas (e.g., risk pooling), rather than strengthening sub-markets that are already financially attractive (e.g., diagnostics).
- **Cross-cutting enablers (5-10).** In addition to the above, other critical cross-cutting enablers are required to improve the broader investment environment, especially in relation to unlocking the ability of counties to set up PPPs, shifting from heavy donor funding models to private sector-inclusive ones, driving large-scale investor engagement, improving quality standards and increasing data availability through digitization of primary healthcare systems.

Significant efforts are already underway to drive this agenda; therefore, the implementation roadmaps described below seek to recognize, align with, and build upon these efforts. In each area, we have syndicated the proposed roadmaps with the key stakeholders driving each area and aligned on the activities and milestones required. Where possible, we have identified ‘quick wins’ in addition to longer, multi-year transformation efforts. The information was correct when we compiled this report, but given the fast-moving nature of Kenya’s primary healthcare sector, some details may have shifted after the writing of this report.

ENABLERS FOR SPECIFIC SUB-MARKETS

Risk pooling and outpatient care: Establish sustainable coverage package(s) and fix payment delays at the National Hospital Insurance Fund

Interviews with executives of healthcare businesses conducted in Phase 1 indicate that the changing landscape of Universal Health Coverage (UHC) and National Hospital Insurance Fund (NHIF) reforms are affecting business and investment decisions, especially in outpatient care and risk pooling. Although there have been recent positive changes, e.g., the Kenyan government has committed to achieve UHC by 2022 and NHIF coverage has increased from 7% of the population in 2010 to 17% in 2017, businesses

remain concerned about the sustainability of NHIF's coverage packages and NHIF's administrative efficiency. In addition, to date, there are limited ways for private sector insurers to participate in NHIF, and models where private sector can offer packages meeting defined parameters can be considered in order to expand the variety and types of insurance offerings in the Kenyan market and to encourage innovation in the insurance markets.

Additionally, a recent decision has been made to implement UHC by waiving user fees at public facilities. One of the lessons learned from a similar implementation model in Thailand was that private sector was not engaged sufficiently in the provision of publicly funded care in the initial roll out stages. This will be a critical issue for the Ministry of Health to consider in the planning and execution of this UHC model.

Insurance coverage packages

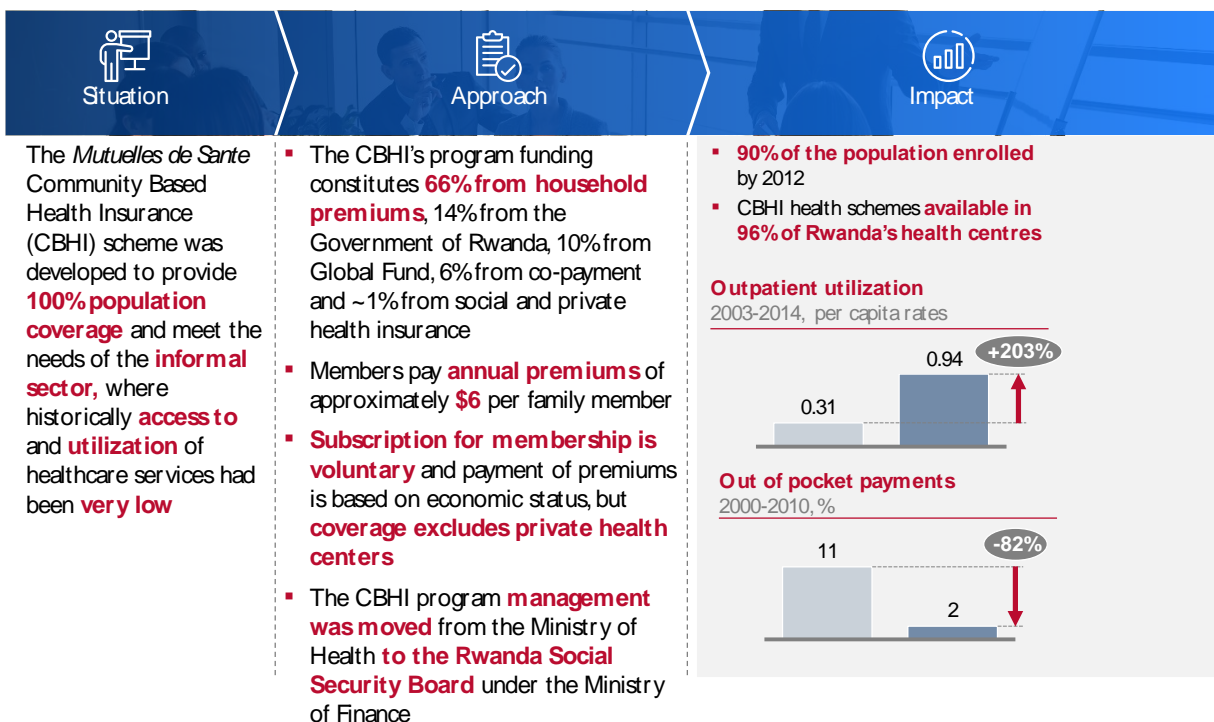
In interviews, healthcare businesses cite the question marks around the financial sustainability of NHIF's coverage packages as a fundamental risk factor in considering investment decisions. According to experts, there are serious doubts that the benefits and payouts of some coverage packages, e.g., the SUPA Cover, can be sustained. That said, there is ongoing work on defining sustainable benefits packages. The Health Benefits Package Advisory Panel, appointed by the Cabinet Secretary of the Ministry of Health, has assessed the cost of various benefit packages, whilst the NHIF has also assessed, but not shared the breakdown of, the cost of SUPA Cover package. These two parties have been working independently and have not yet reconciled and aligned the cost structures of the aforementioned insurance packages.

To address these challenges, a sustainable coverage package is required. This could be achieved by reconciling packages to create a consolidated coverage package. In creating this package, the government could consider making the payment structure and model capitation-based and creating a framework for the private sector to participate in, e.g., enabling a marketplace where private sector can packages that meet pre-defined requirements. This would be a significant boost to enabler the private sector insurers to expand beyond the 2-3% of the population that they currently serve. In addition, NHIF could consider outsourcing funds management and claims processing, which would further create private sector opportunities.

There are examples of other countries that have dramatically increased healthcare coverage through a national essential benefits package. Rwanda, for example, developed the Community-based Health Insurance (CBHI) scheme to provide 100% population coverage and meet the needs of its informal sector. The scheme trebled outpatient utilization and reduced out-of-pocket costs by 82% over 10 years (Exhibit 1).

EXHIBIT 1

Rwanda's Community Based Health Insurance (CBHI) scheme



SOURCE: USAID's 2013 African strategies for health Rwanda profile, Rwanda's 2013 MoH annual report

Administrative efficiency

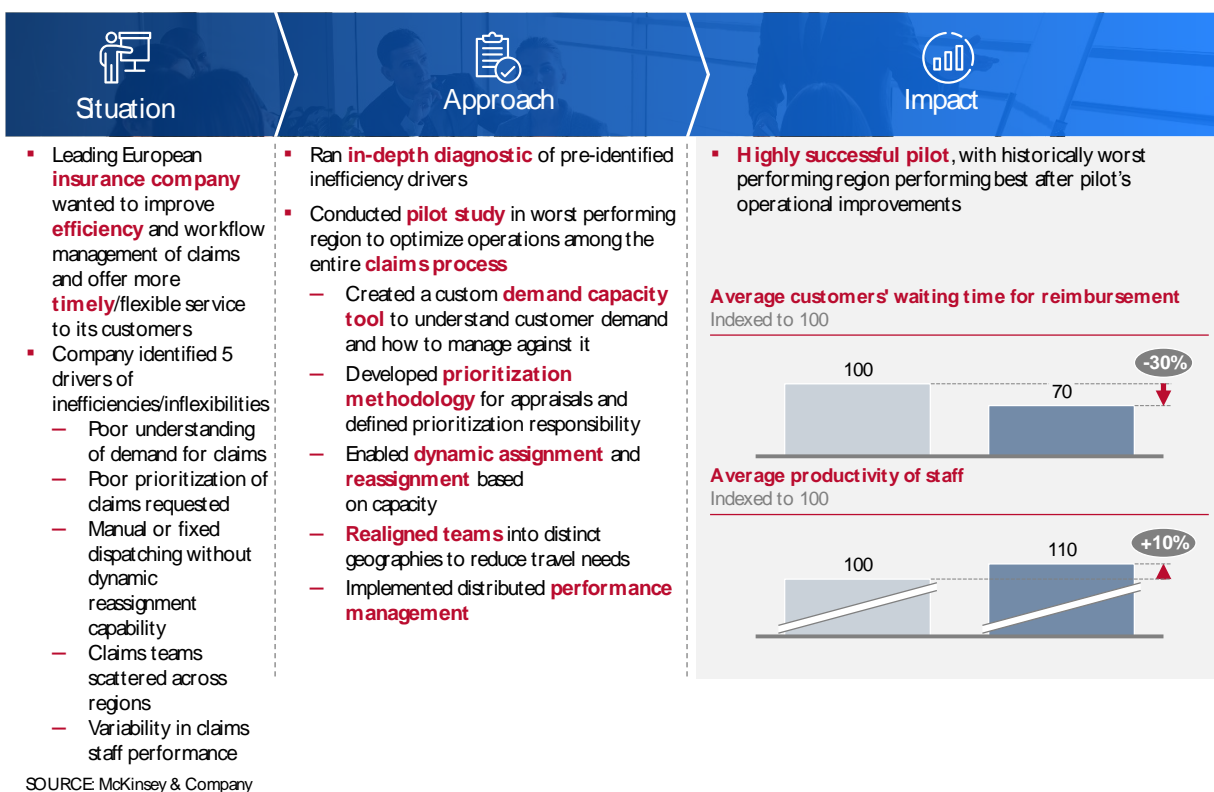
Healthcare businesses interviewed report cash flow issues arising from payment delays that are common with NHIF reimbursements today. Private-sector players currently experience payment timelines of up to one year, negatively impacting the investment attractiveness of healthcare services provision. At the same time, there may be room to improve NHIF's administrative efficiency. The NHIF's administrative costs as a share of revenues decreased from 42% to 22% while the benefit pay-out ratio increased from 52% to 75% between 2010 to 2017². However, this pay-out ratio is still relatively low, indicating an opportunity to improve operational efficiency.

Digitizing the system would help to eliminate payment delays while improving operational efficiency at NHIF. For example, a leading European insurance company digitized its insurance systems and tools to improve efficiency and workflow management of claims. As a result, customer waiting times for disbursement fell 30% and staff productivity rose 10% (Exhibit 2).

² Khama Rogo, Kenya National Hospital Insurance Fund Reforms: Implications and Lessons for Universal Health Coverage

EXHIBIT 2

European insurance company's digitization of insurance systems



Enablers and quick wins

The solutions outlined above can only be implemented after passage of the amendments to the NHIF Act currently underway, which include reforms to NHIF's governance and regulatory oversight. Meanwhile, stakeholders are already working on the first two of the below two quick wins, both of which should continue, whilst the third will act as a powerful tool to take NHIF to a world-class level, including informing the development of a coverage and payment model and digitizing the system³ (Exhibit 3):

- Assessing and costing potential coverage packages
- Improving the quality management process by reallocating quality accreditation functions (for both public and private sector providers) from NHIF to another entity
- Conducting a diagnostic with the aim of fully understanding the current status of NHIF's operational and organizational model, plan for growth and management of

³ This work specifically builds on and avoids duplication of work with the World Bank and IFC, who have provided substantial support to NHIF in reforming NHIF to achieve UHC, including providing technical support for the design and implementation of a Health Insurance Subsidy Program for the Poor (HISP) and financing implementation of a certification system for increased quality insurance and improvement. - The Path to Universal Health Coverage in Kenya: Repositioning the Role of the National Health Insurance Fund, IFC, June 2015

liabilities, and taking learnings from success cases in other countries and to design a long-term path for NHIF to become a world class public health insurance provider

EXHIBIT 3

Enablers and quick wins

Enabler: Amend the NHIF Act¹

- Drive **passage and implementation of amendments** to the NHIF Act, as per the bill currently under review by the Senate, which **will strongly aid** in opening avenues for other larger initiatives such as creating a sustainable coverage package as well as digitizing NHIF
- Establish **transparency and accountability** across NHIF
- Implement **changes to the composition of the board**
- Subject NHIF to **regulation** by the Insurance Regulatory

① Quick wins related to coverage & payment model²

- **Cost NHIF coverage packages** (already undertaken by an NHIF-independent Health Benefits Package Advisory Panel vetted by the Cabinet Secretary of the Ministry of Health)
- **Separate quality accreditation functions from NHIF** and allocate these responsibilities to a different public entity
- **Conduct a diagnostic of NHIF** with the aim of fully understanding the current status of NHIF's operational, business and organizational model, and to design a **long term path** for NHIF to become a **world class public health insurance provider**

Coverage and payment model

- **Reconcile and make transparent** the new benefits package that has been costed
- Create a **unified and consolidated sustainable coverage package** for all citizens
- Consider **reforming the payment structure** and model to a capitation based model
- Create a **framework for private sector participation** e.g. in funds management and provision of elements of the coverage
- Continue **improving quality** through capacity building, performance improvement and change management

② Digitization of NHIF

- **Assess current NHIF digital system** to identify key challenges and areas of improvement
- **Design a digital system** to reduce the amount of time it takes to receive payments

¹ A bill has already been proposed to amend the NHIF Act

² These are the near-term quick wins before completion of government reforms
SOURCE: Expert interviews

Roadmaps

Given work is already underway to address the first two quick wins, the first roadmap here outlines steps required to undertake a diagnostic of NHIF in three phases that last for a total of seven to ten weeks (Exhibit 4).

Implementation roadmap to conduct diagnostic on NHIF

	4-5 weeks	1-2 weeks	2-3 weeks
	Understanding the current state of NHIF	Identify opportunities from global best practices	Develop roadmaps for NHIF become a world class public health insurance provider
Activities	<ul style="list-style-type: none"> Clearly draw out NHIF's current <ul style="list-style-type: none"> — Coverage plans — Business model — Operating model Establish NHIF's operational and organizational effectiveness, both internally (e.g. claims processing) and in terms of underwriting Clarify NHIF's growth plan both geographically and demographically Understand the current and long-term balance sheet and how to manage liabilities Review current roles NHIF is playing 	<ul style="list-style-type: none"> Review global success cases of other national health insurance funds and identify opportunities for NHIF to adopt similar approaches in terms of: <ul style="list-style-type: none"> — Organizational and operational practices — Growth plans — Sustainability and management of liabilities — Roles played 	<ul style="list-style-type: none"> Create an ambitious yet practical path to raising NHIF's operational and organizational effectiveness to meet world class standards, including those for digitization Draw up a strategic growth plan that outlines an approach to significantly expand coverage and address inequity, taking into account county health insurance plans Adopt global lessons on sustainable packages and management of liabilities to lay out a clear route for NHIF to have a best practice, sustainable financial structure Identify the core roles for NHIF to take strong leadership on and partners to take others Syndicate roadmaps with stakeholders
Key stakeholders	<ul style="list-style-type: none"> NHIF Ministry of Health Insurance Regulatory Authority 	<ul style="list-style-type: none"> NHIF Ministry of Health Insurance Regulatory Authority 	<ul style="list-style-type: none"> NHIF Ministry of Health Insurance Regulatory Authority
Milestones	<ul style="list-style-type: none"> Review completed on current status of NHIF's current operational and organizational practices, future growth plans, financial sustainability and management of liabilities, as well as roles played 	<ul style="list-style-type: none"> Set of opportunities identified for NHIF to adopt based on global success cases for operational and organizational effectiveness, growth, sustainability, and roles played 	<ul style="list-style-type: none"> Recommendations outlined to take operational and organizational practices to world class level Growth plan drawn up and syndicated Route to setting up a best practice, sustainable financial structure outlined Clear lead roles for NHIF identified Stakeholder syndication conducted

Once the NHIF Act has been amended, the bulk of the work on the two needed initiatives to address private sector concerns on NHIF's financial sustainability and administrative efficiency can commence. The roadmap for the first of these—creating a sustainable coverage package and payment mechanism—is divided into four phases over four years (Exhibit 5).

EXHIBIT 5

Implementation roadmap to create a sustainable coverage package and payment mechanism

XXX Lead agencies

	0-12 months	12-24 months	18-36 months	3-4 years
	Achieve quick wins	Establish coverage packages	Establish a payment mechanism and private sector participation	Implement
Activities	<ul style="list-style-type: none"> Continue to assess and cost coverage packages (in progress by the Health benefits Package Advisory Panel) Identify a body separate from the NHIF to conduct quality accreditation Set out quality improvement metrics 	<ul style="list-style-type: none"> Reconcile the costed coverage package with NHIF's coverage package Create a minimum unified and consolidated benefit package for all Kenyans Establish mechanisms to address barriers to sign up by creating a customer friendly process to draw in the large numbers of people for the risk pool 	<ul style="list-style-type: none"> Analyze payment model to adopt – develop options and evaluate using financial and actuarial models Implement a capitation payment model based on analysis Structure options for private sector participation in processing of claims and provision of supplemental packages for higher income tiers 	<ul style="list-style-type: none"> Implement NHIFs unified and consolidated benefit package for all citizens Roll out a rigorously analyzed payment model Implement private sector participation models – e.g., through tenders for payments processing, establishing marketplace for offering supplemental packages
Key stake-holders	<ul style="list-style-type: none"> NHIF Ministry of Health Health Benefits Package Advisory Panel Insurance Regulatory Authority Kenya Healthcare Federation 	<ul style="list-style-type: none"> NHIF Ministry of Health Health Benefits Package Advisory Panel Kenya Healthcare Federation 	<ul style="list-style-type: none"> NHIF Ministry of Health Kenya Healthcare Federation 	<ul style="list-style-type: none"> NHIF Ministry of Health Kenya Healthcare Federation
Mile-stones	<ul style="list-style-type: none"> Coverage package and costing established Quality accreditation body identified 	<ul style="list-style-type: none"> NHIF's package reconciled with the costed package Consolidated benefit package established 	<ul style="list-style-type: none"> New payment model adopted Private sector role in NHIF identified 	<ul style="list-style-type: none"> Consolidated sustainable coverage package identified and rolled out

The roadmap to digitize the NHIF also has four phases that last for a total of three years (Exhibit 6).

Implementation roadmap to digitize the NHIF

	0-3 months Initial phase Task Force set-up and diagnostic	3- 12 months Design phase Solution design	1-1.5 years Pilot phase Piloting of interim solution	1.5-3 years Implementation phase Complete roll out of NHIF system
Activities	<ul style="list-style-type: none"> Create Steering Committee / Task Force to drive initiative Assess opportunities to improve the current NHIF digital system, including understanding customer pain points and satisfaction drivers Prioritize most impactful ways to improve the system 	<ul style="list-style-type: none"> Create digital 'squad' to: <ul style="list-style-type: none"> Develop design of digital NHIF solution with recommendations on current system addressed Assess technology options and vendors Design target operating model 	<ul style="list-style-type: none"> Pilot in UHC pilot counties and health facilities Work with NHIF claims unit and other parts of the organization on rollout and change management Collect customer feedback and KPIs; improve final solution 	<ul style="list-style-type: none"> Fully roll out final product to entire country Track key KPIs such as reduction in delayed payments, reduction in costs, uptake of cover etc. and implement quarterly reporting sessions
Key stake-holders	<ul style="list-style-type: none"> NHIF Ministry of ICT Providers and other claimants Patients 	<ul style="list-style-type: none"> NHIF Ministry of ICT 	<ul style="list-style-type: none"> NHIF Ministry of ICT County government Providers and other claimants Patients 	<ul style="list-style-type: none"> NHIF Ministry of ICT County governments Providers and other claimants Patients
Milestones	<ul style="list-style-type: none"> Identification of key challenges and customer pain points in current NHIF system Alignment on aspirations / KPIs 	<ul style="list-style-type: none"> Initial design / MVP (minimum viable product) of digital solution complete 	<ul style="list-style-type: none"> Improved digital solution and rollout model KPIs reached in pilot counties 	<ul style="list-style-type: none"> Roll out of system to entire country KPIs reached nationally over time

Risk pooling: Increase the efficiency of private medical insurance

Only ~20% of the Kenyan population has medical insurance. The private sector is highly fragmented, with over 30 insurance companies competing for just ~2% of the Kenyan population. It faces three main challenges in the inefficient risk pooling industry.

First, the claims management process is highly paper-based and manual, with payments typically being received 45-60 days after treatment. Because of highly manual systems, the health insurance claim fraud rate, at ~40%, is much higher than the global rate of ~12-17%.

Second, according to Kenya's Insurance Regulatory Authority (IRA), 20 out of 32 medical insurance companies succumbed to underwriting losses totaling KES 621.64 million in the fiscal year ending December 2016. This was due to the excessive cost of healthcare driven by high claim costs.

Third, the Insurance Act has set out a risk-based capital requirement for the medical insurance industry to adhere to, requiring a 15% premium reserve risk charge and 13% claims reserve risk charge. However, only a few companies in the industry observe these minimum risk-based capital guidelines.

Risk pooling contributes significantly to primary healthcare and, with ~70% of the population currently uninsured, even with the roll-out of UHC, the private insurance sector will likely need to be part of the solution to providing quality primary healthcare, reducing out-of-pocket expenditure and avoiding catastrophic spending and medical impoverishment.

To address the challenges in the private risk pooling market, four solutions could increase the efficiency of private medical insurance:

- **Digitize the claims management process** by utilizing the electronic claim system that is being promoted by the Association of Kenya Insurers (AKI), which the industry has aimed to set up by January 2019. Currently, only the largest four insurers are on track to achieve this goal.
- **Benchmark claim costs** by disease type and set a minimum/maximum per ailment.
- **Benchmark insurance companies' operating expenses** against those of their peers to flag inefficiencies, e.g., staff costs and acquisition costs.
- Establish a mechanism for monitoring and adherence to the **risk-based capital requirement in the Insurance Act**.

Roadmap

The two-year roadmap to digitize the claims process, benchmark claims and operational expenses, and monitor risk-based capital requirement, has three phases (Exhibit 7).

Implementation roadmap for digitization of claims process, benchmarking costs and monitoring of risk-based capital requirement

	1-2 months	3- 6 months	1-2 years
	Initial phase Task Force set-up and diagnostic	Design phase Solution design	Pilot phase Piloting of interim solution
Activity	<ul style="list-style-type: none"> Interview private insurance companies to understand current industry view and main challenges Analyze and define optimum claim costs and operational expenses amongst private medical insurance companies Determine the process and timeline to roll out benchmarked claim costs and operational expenses Establish enforcement mechanism to the Insurance Act in monitoring of the risk-based capital requirement Reach out to Association of Kenya Insurers to explore options to support in the creation of the electronic claim system 	<ul style="list-style-type: none"> Design self-regulating / industry-driven process to ensure benchmarked claim costs and operating expenses are implemented Pilot digital system in priority facilities 	<ul style="list-style-type: none"> Track performance of insurance companies and quality of healthcare provided to citizens with optimum claim costs and operating expenses Roll out digital system to all facilities
Key stakeholders	<ul style="list-style-type: none"> Association of Kenya Insurers Insurance Regulatory Authority Ministry of Health Private insurance companies 	<ul style="list-style-type: none"> Association of Kenya Insurers Insurance Regulatory Authority Ministry of Health Private insurance companies 	<ul style="list-style-type: none"> Association of Kenya Insurers Insurance Regulatory Authority Ministry of Health Private insurance companies
Milestones to reach	<ul style="list-style-type: none"> Claim cost and operational expenses benchmarked Support provided to creation of an electronic claim system 	<ul style="list-style-type: none"> Self-regulating mechanism to ensure optimum costs are implemented established Electronic claim system piloted 	<ul style="list-style-type: none"> Patient protection and quality healthcare tracked Electronic claim system fully rolled out

Pharmaceuticals: Remove Kenyan importers' preferential treatment in public procurement of pharmaceuticals and assess viability and impact of program to support local manufacturing

Private sector investment in the pharmaceutical manufacturing industry in Kenya is relatively low today. Local manufacturers find it difficult to compete with imported products made by larger international players that benefit from larger scale, newer technologies, and better quality. Today, Kenya has only ~40 local manufacturers, only two of which have achieved WHO PQ (a marker of global standards of quality manufacturing). Kenya's small domestic pharma manufacturing sector stiff import competition from India's industry of ~10,000 manufacturers and China's industry of ~4,000 manufacturers, as well as other global production centers such as Europe, South Africa, and the Middle East. As a result, local manufacturing accounts for a minority of the drugs consumed in Kenya, with ~72% of all pharmaceutical products by value being imported.

National policy currently provides a small advantage to local manufacturers in public procurement: local manufacturers receive a 15% price preference, compared with a 10% preference for importers that are at least 51% Kenyan-owned. Industry experts indicate that this 5% differential is too small to effectively stimulate local production, which

typically faces higher raw materials, electricity, and labor costs compared to production in Asia.

Hence, one recommendation is to remove the 10% preference in national tenders for importers that are at least 51% Kenyan owned. Import businesses consist of little value addition in Kenya and are not significant job creators or drivers of productivity or technological advancement. Paying an extra 10% from scarce national resources to effectively subsidize importers' businesses yields little health or developmental impact while impeding the potential market for domestic manufacturers.

Beyond this question of price preference in national tenders, Kenya should examine whether a broader, more comprehensive support program for local manufacturing is warranted. If a comprehensive support package is established for Kenya's domestic pharmaceutical manufacturing, more investors would be attracted to this sector. While some drugs produced may not be for use in primary healthcare, based on Kenya's current technological level, a significant contribution of the drugs manufactured will be generic drugs with high relevance for primary healthcare treatment.

It is clear from other countries' experience that significant effort—including but going well beyond preferences in national tenders—is needed to grow a domestic pharma manufacturing sector of substantial size. Ethiopia's recent experience provides a case in point. Ethiopia spent several years coordinating across its Ministries of Health, Finance, and Industry to develop a comprehensive National Strategy and Plan of Action for Pharmaceutical Development. This strategy detailed a comprehensive local pharmaceutical manufacturing support program under which the Government offers a range of financial and non-financial incentives to promote local pharmaceutical manufacturing, including the creation of a dedicated special economic zone for pharma manufacturing, tax breaks, preferential access to foreign exchange, as well as a 25% preference in the national tender (Exhibit 8).

EXHIBIT 8

Ethiopia's National Strategy For Pharmaceutical Manufacturing Development

Strong national will from three ministries to support domestic pharma manufacturing



The launch of the national pharma manufacturing strategy was co-sponsored by the Ministers of Finance, Industry, and Health

Pharmaceuticals is a **strategic commodity with national security implications**. We want quality, affordable medicines for our people.

– **Director General, FMHACA**

The focus in this industry is to **substitute imported essential medicines** by locally produced ones and produce for export markets. The major targets in this regard are to... increase foreign exchange earnings from 3 million USD to USD 111 million

– **GTP-II**

1 Varies based on location and export performance
SOURCE: FMHACA, EIC, Expert interviews

GoE has implemented a package of supportive policies

Category	Sub-category	Ethiopia's stated incentive scheme (2016)
Revenue-enhancing	Public procurement	<ul style="list-style-type: none"> Closed bids if >1 local manufacturer 25% price preference in international tenders
	Custom duty exemptions	<ul style="list-style-type: none"> 100% duty exemptions on capital goods and raw materials Exemptions for spare parts up to 15% of value of capital goods
Profit-enhancing	Corporate income tax exemption	<ul style="list-style-type: none"> 6-12 years of tax holiday¹ Tax rate of 30% after holiday
	VAT exemptions	<ul style="list-style-type: none"> VAT tax exemption on imported inputs to production, e.g., API
Operational efficiency	Access to finance	<ul style="list-style-type: none"> Up to 70% loans for new investments and 60% for upgrading projects at 10% interest rate
	Regulation	<ul style="list-style-type: none"> Fast-tracked product registration
	Availability of infrastructure	<ul style="list-style-type: none"> Electricity rate at 3 US cents/Kwh Land lease (serviced land) ~\$0.5/m²/month
	Access to forex	<ul style="list-style-type: none"> Preferential access to forex

The Ethiopia case as well as global experience shows that given the strong incumbents in the pharma sector, it takes well-coordinated, well-resourced, and comprehensive programs like Ethiopia's to have a chance at substantially domestic drug manufacturing. Kenya should carefully assess whether such a program would be impactful and have a good chance at succeeding before embarking on such an involved initiative. We recommend that Kenya conduct a detailed impact and feasibility assessment as to whether increased local pharmaceutical manufacturing is worth the substantial resources and effort required to build it up. On the impact side, this would entail assessing the effects of having a local industry on access to health commodities, consumer prices, job creation, GDP growth, and trade balance. On the feasibility side, Kenya's investment attractiveness vis-a-vis alternative manufacturing locations, as well as cross-governmental will and capabilities to support the sector, would need to be examined. Key stakeholders across not just the Ministry of Health, but also the Treasury and the Ministry of Industry, should be convened to examine the facts together and decide if such a program is warranted.

Roadmaps

The roadmap to remove the 10% procurement preference for local importers would entail the Ministry of Health authorizing this issue to be examined, followed by a detailed study, then presentation to the National Treasury for approval and ratification (Exhibit 9).

EXHIBIT 9

Implementation roadmap to the 10% procurement preference for local importers

	1-3 months	1-3 months	3-9 months
	Convene decision makers and make recommendation	Build a case	Oversee ratification process
Activities	<ul style="list-style-type: none"> Convene relevant stakeholders within the Ministry of Health involved with public procurement policy Present high level case for removal of preference Request authorization for deeper analysis of case to be presented at a later date 	<ul style="list-style-type: none"> Build comprehensive case for removal of importer preferences with clearly defined scenarios and impact Convene relevant stakeholders from the National Treasury involved with public procurement policy and present case with recommendations 	<ul style="list-style-type: none"> Drive proposal for amendment to the procurement policy through the ratification process
Key stakeholders	<ul style="list-style-type: none"> Ministry of Health National Treasury Kenya Medical Supplies Authority 	<ul style="list-style-type: none"> Ministry of Health National Treasury Kenya Medical Supplies Authority 	<ul style="list-style-type: none"> Ministry of Health National Treasury Kenya Medical Supplies Authority
Milestones	<ul style="list-style-type: none"> Meeting with key stakeholders Presentation of high level case and authorization for deeper analysis Set date for reconvening of relevant bodies and presentation of findings 	<ul style="list-style-type: none"> Business case developed outlining the actions recommended and the impact analysis Presentation of business case to relevant bodies Final decision by relevant bodies 	<ul style="list-style-type: none"> Alignment on steps necessary to get proposal passed Ratification on proposal through legislative change

SOURCE: Expert interviews

The roadmap to assess the viability and impact of a comprehensive program to support local pharmaceutical manufacturing is divided into three phases occurring in sequence (Exhibit 10).

Implementation roadmap to assess the viability and impact of a comprehensive program to support local pharmaceutical manufacturing

	2 months	6-9 months	1-3 years
	Establish decision-making process and conduct diagnostic	Build a case	Oversee ratification process
Activities	<ul style="list-style-type: none"> Convene relevant line ministries and agree on process that will result in an evidence-based decision regarding whether to enact a comprehensive program to support local manufacturing Conduct detailed diagnostic on the current state of pharma manufacturing in Kenya, including collecting plant-level data on: <ul style="list-style-type: none"> Installed scale and capacity utilization Quality levels Technology levels and constraints 	<ul style="list-style-type: none"> Conduct evaluation for local pharma manufacturing including: <ul style="list-style-type: none"> Impact: on drug prices to consumers, access to medicines, job creation, GDP growth, and trade balance Feasibility: investment attractiveness, motivation, capabilities, and market dynamics Develop detailed business plan, including investor attractiveness and sources of funding Convene body to decide if a comprehensive program to support domestic pharma manufacturing is warranted 	<ul style="list-style-type: none"> If decision is made to support the industry: <ul style="list-style-type: none"> Develop a comprehensive implementation plan Hold official launch of implementation plan and use it as an opportunity engage investors Roll out and track implementation If decision is made not to support the industry, reexamine 15% preference in national tender
	<ul style="list-style-type: none"> Ministry of Industry, Trade, and Cooperatives Ministry of Health National Treasury FKPM¹ 	<ul style="list-style-type: none"> Ministry of Industry, Trade, and Cooperatives Ministry of Health National Treasury FKPM 	<ul style="list-style-type: none"> Ministry of Industry, Trade, and Cooperatives Ministry of Health National Treasury FKPM
Milestones	<ul style="list-style-type: none"> Designation of body responsible driving process and final decision Completed diagnostic 	<ul style="list-style-type: none"> Decision on whether to provide a comprehensive package of support for domestic pharma manufacturing 	<ul style="list-style-type: none"> If decision is made to support the industry: Implementation plan publicly launched, with investors invited and engaged If decision is made not to support the industry: potential roll-back of 15% price preference in national tender

SOURCE: Expert interviews

¹ Federation of Kenyan Pharmaceutical Manufacturers

Medical education: Scale the provision of low-interest student loans to prospective medical students

Interviews with investors in the medical education business suggest that it is a promising sector for investment, with relatively high profitability as long as sufficient student volumes can be maintained. One critical factor in ensuring sufficient and stable student volumes is the affordability and financing of tuition fees. It is still common for tuition fees to be paid out-of-pocket, and hence many prospective medical students are unable to afford tuition fees. Enrolment rates are therefore low and drop-out rates are high⁴. This undermines the business case for the private sector to invest in medical education, as training institutions depend on revenues from students paying their fees.

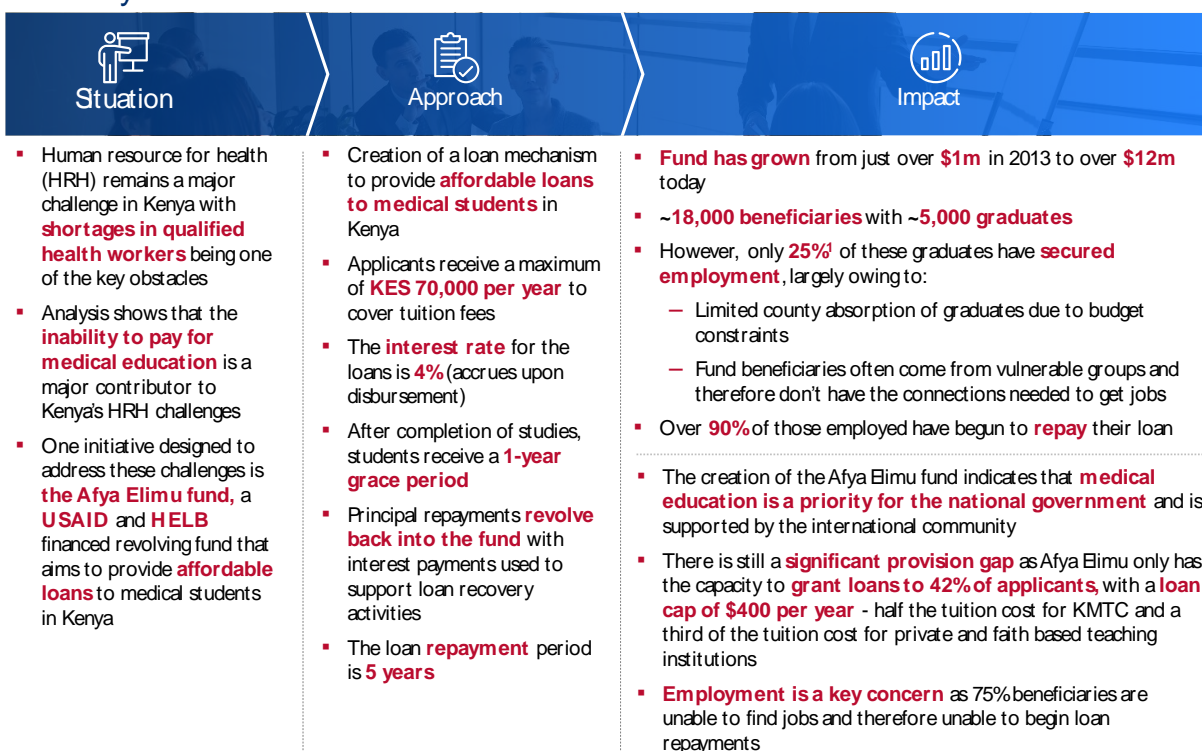
The Afya Elimu fund, a well-respected student loan provision mechanism set up through the FUNZOKenya program and funded by USAID and the Higher Education Loans Board (HELB), offers one solution to the medical education affordability challenge (Exhibit 11). The fund provides low-interest loans (at 4%) to prospective

⁴ As reported on Afya Elimu website: afyaelimu.co.ke/about/

medical students and has assisted ~5,000 students to date. HELB acts as the fund manager and processes loan applications through its portal.

EXHIBIT 11

The Afya Elimu model



1 Expert says employment is likely to be under-reported, owing to students failing to declare when they gain employment

SOURCE: Afya Elimu facts sheets; expert interviews

The Afya Elimu model already had created significant impact and should be further scaled up. Currently, prospective student demand for loans is approximately four times the amount being disbursed. In addition, although one county has already started to pay into the fund, more remains to be done to ensure county financial buy-in and participation in this impactful model.

To enable this next phase of scale-up, Afya Elimu should be expanded to increase its capacity, service offering and operational efficiency in three ways:

- **Scale the model** by securing additional financing from county governments to provide loans to more prospective medical students by:
 - Adapting legislation amendments developed by HELB to enable county governments to invest in Afya Elimu (Kakamega county has already adopted this legislation and committed capital to Afya Elimu).
 - Ringfencing county allocations to ensure funds are channeled to students in programs that address county-specific human resource needs.

- Setting up a bonding model in which recipients of county-backed loans are contracted to work within that county for a fixed period immediately after they complete their studies.
- **Widen service provision** to include postgraduate medical courses, which further attracts county buy-in and participation since these would address some of their critical shortages.
- **Improve fund performance** to establish a self-sustaining, revolving fund by targeting higher loan repayments through the bonding model which directly links graduates to employment opportunities, as well as increased follow up and engagement with beneficiaries to improve loan repayment compliance.

These initiatives would serve to enlarge the medical education market for private-sector investors by increasing demand for and enrolment in medical education institutions. Of course, this initiative would also have broader benefits for Kenya's health system, which currently suffers from a health worker staffing shortage estimated to exceed 200,000.

These loans should prioritize nurses, pharmacists and other entry level cadres of health workers where there is, by absolute number, the largest need in the country and thereby the strongest business case for investment, given these volumes.

Roadmap

The implementation roadmap to provide low-interest loans to medical students, has three phases and lasts five years (Exhibit 12)

Implementation roadmap to provide low-interest student loans to medical students

	6-12 months	9- 24 months	2-5 years
	Partnership with HELB	Expansion of Afya Elimu	Establishment of amended fund
Activity	<ul style="list-style-type: none"> Fast-track engagement with counties already approached by HELB and showcase successful negotiations Work with HELB to assess feasibility of widening of service provision within Afya Elimu and achieving financial sustainability Work with HELB and CoG to identify steps required to enable and incentivize counties to become financial partners in the fund, widen service provision of fund and improve performance with the goal of sustainability Develop comprehensive roadmap Align stakeholders on responsibilities 	Roll out of implementation plan. This includes:- <ul style="list-style-type: none"> Legislative changes and provision of support needed to enable counties to engage as financial partners Structure and policy changes with the Afya Elimu required to: <ul style="list-style-type: none"> Provide counties with the comfort and incentives needed to become financial partners Widen service provision to include advanced programs Improve efficiencies to achieve sustainability 	<ul style="list-style-type: none"> Open application process with updated structures and disburse loans to successful applicants Monitor beneficiaries through education journey and beyond to ensure repayment compliance and assist with employment opportunities Modify processes where efficiency can be improved Partner with public and private institutions to provide employment opportunities for beneficiaries Utilize repayments to finance new loans and work towards sustainability
Key stakeholders	<ul style="list-style-type: none"> Higher Education Loans Board Council of Governors National Treasury Ministry of Education National Treasury Ministry of Education 	<ul style="list-style-type: none"> Higher Education Loans Board Council of Governors National Treasury Ministry of Education National Treasury Ministry of Education 	<ul style="list-style-type: none"> Higher Education Loans Board Council of Governors National Treasury Ministry of Education National Treasury Ministry of Education
Milestone to reach	<ul style="list-style-type: none"> Signed financial commitment from counties Feasibility and impact report on widening service provision and fund sustainability Identification of steps required to achieve the three initiatives and development of implementation plan Stakeholder engagement and alignment on roles and responsibilities 	<ul style="list-style-type: none"> Signed commitments from relevant stakeholders Amendment of fund structure to allow new financing and wider service provision Amendment of fund policy to grant counties incentives and improve fund performance Disbursement of funds into fund account 	<ul style="list-style-type: none"> Commencement of application process and disbursement to successful applicants Reports with status of beneficiaries and recommendations for support Events designed to match beneficiaries with potential employers Establishment of sustainable revolving facility

SOURCE: Afya Elimu fact sheets; UHC roadmap; expert interviews

CROSS-CUTTING ENABLERS

Reform policy framework to enable counties to participate in public private partnerships and structure public-private collaboration opportunities at county or bloc level

Kenya's public sector health provision is struggling to keep up with demand. Quality of care in certain facilities is low and there are shortages of essential supplies. High-quality care can be made available through partnerships with the private sector, but the cost of private health provision remains a major deterrent to its uptake.

Public private partnerships (PPPs) could enable the private sector to help county and national governments meet demand at a lower cost. County-level desire to set up PPPs is high, however, currently, there are barriers to county participation, including a lack of standardized framework for counties to engage in PPPs. The counties perceive that they are unable to participate in PPPs, even though the PPP Unit within the Treasury has a dedicated county office to facilitate county participation in PPPs. The PPP process is long and not well understood; it takes 18-36 months to complete, with Cabinet approval alone

taking up to 12 months. In addition, the capacity to structure and execute PPPs is limited, especially at the county and bloc levels.

The amendments to the PPP Act under review by the Senate – including the creation of formal capacity at county level to conduct initial PPP development and the removal of Cabinet approval requirements – will address some of these barriers. Others can be resolved in three ways:

- **Build county government PPP capabilities and strengthen national government support.** Identify obstacles to county PPP engagement, analyze county PPP capability gaps, develop capability-building plans, assess the support required at the national level to drive the PPP process, and raise awareness of the PPPs unit and the support they can offer counties.
- **Facilitate PPP transactions.** Identify health PPPs for fast-tracking and showcase success stories; provide transactional support to other promising health PPPs; monitor completed PPPs for health impact and value for money; identify potential new transactions in the health sector and target key investors.
- **Provide technical support for PPP policy reform.** Evaluate the current PPP landscape and its effectiveness, identify PPP enablers and assess the need for further amendments to the PPP Act.

In the mean-time, an opportunity exists to fast-track potential investments through alternative public-private contracting agreements, including contracting under the Procurement Act and structuring of Special Purpose Vehicles whereby both the county and private sector investor are shareholders.

Roadmap

The roadmap to continue reforms regarding the PPP policy framework, build capacity and identify capacity for counties to participate in PPPs is divided into three parallel phases (Exhibit 13).

EXHIBIT 13

Implementation roadmap to reform policy framework, build capacity, and identify opportunities for counties to participate in PPPs

XXX Lead agencies

	Provide technical support for PPP reform process	Build National & County government PPP capabilities	Facilitate PPP transactions
Activities (occurring in parallel for 3 initiatives)	<ul style="list-style-type: none"> Support completion of the draft PPP Health Sector Strategy Provide TA to key parties¹ in relation to the reforms Provide training for County Governments to draft and refine relevant county policies and regulations Facilitate bi-annual county health stakeholder forums to discuss PPP optimization enablers Showcase success stories to increase awareness and encourage public support 	<ul style="list-style-type: none"> Facilitate dialogue at county level to clarify challenges experienced with the PPP process (already underway) Conduct capacity needs assessment and provide training on health PPPs for key parties² Provide technical support to enhance capabilities and visibility of MoH representative of the PPPU Initiate early engagement between counties and PPPU to showcase engagement possibilities and benefits 	<ul style="list-style-type: none"> Create “fast track window” for less complicated health PPPs and showcase successful transactions Identify promising health PPPs and provide counties and private sector with transaction support Identify counties interested in pursuing PPP opportunities and provide feasibility and transactional support including full development of RFPs Facilitate closing of health PPPs and monitor partnership performance
Key stakeholders	<ul style="list-style-type: none"> PPP Unit SDG Platform Ministry of Health CEC Health Committee County and regional bloc leadership 	<ul style="list-style-type: none"> PPP Unit SDG Platform Ministry of Health CEC Health Committee County and regional bloc leadership 	<ul style="list-style-type: none"> PPP Unit SDG Platform Ministry of Health CEC Health Committee County and regional bloc leadership
Milestones to reach	<ul style="list-style-type: none"> Finalized PPP Health Sector Strategy Technical support provided key parties Training of county officials on policy drafting and refinement Bi-annual county health stakeholder forums held with report on PPP recommendations Circulation of success stories to relevant stakeholders and the general public 	<ul style="list-style-type: none"> Regional events held with counties and report compiled on county level challenges with PPPs Completed capacity needs assessment and training of key parties Technical support for MoH representative of the PPPU Showcasing of successful PPPU engagement possibilities 	<ul style="list-style-type: none"> Completion of small scale PPP transactions to galvanize support and showcase PPP success stories Short list of investment opportunities Progression of deals to RFP stage RFP release for counties to attract private sector investment via PPPs Closing of health PPPs and systematic updates on partnership performance

¹ PPPU's county office, CoG Health Committee and MoH representative of the PPPU ² MoH, CoG Health Committee and CEC Health Committee

SOURCE UN SDG Platform joint workplan (October 2018); expert interviews

Promote market-based approaches to make the sector less reliant on official development assistance (ODA) and enhance the sustainability and impact of initiatives

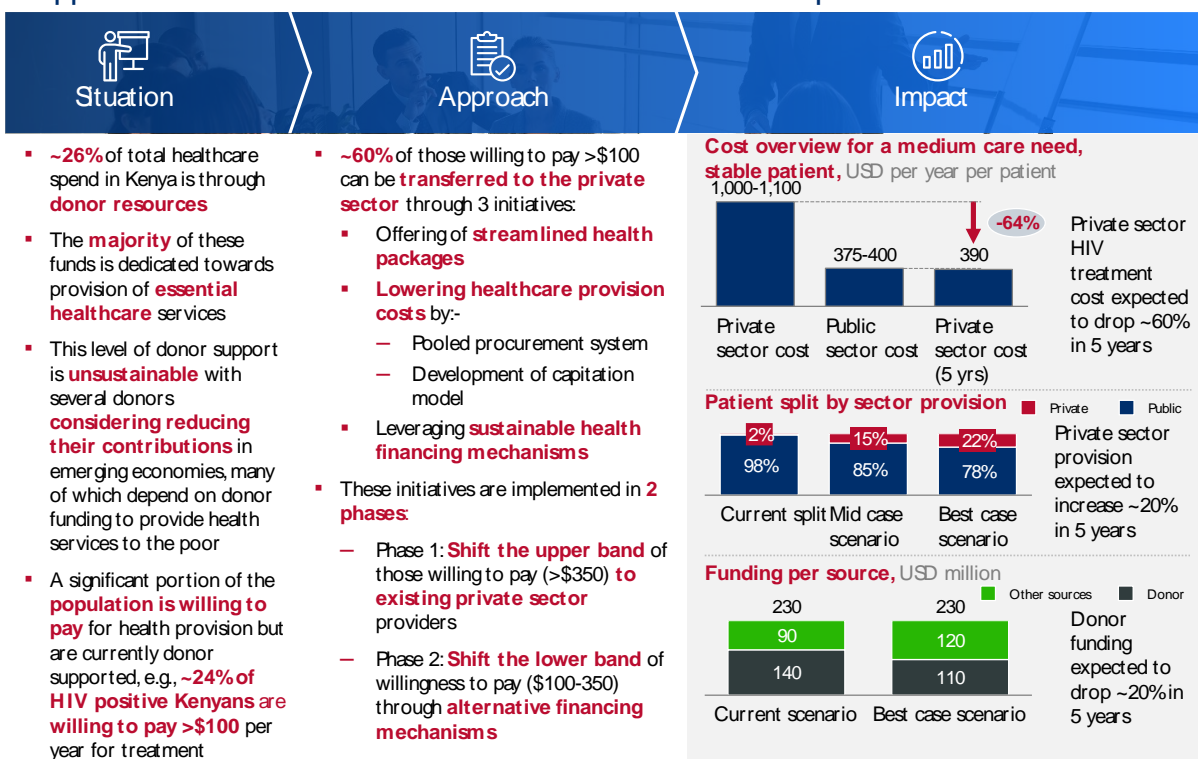
Foreign aid from development partners is expected to level off or decrease in the coming years. For example, the 2018 fiscal year US federal budget includes a 5% reduction in foreign aid spending. Meanwhile, Kenya's population continues to grow, and its public sector has limited capacity to increase health budgets because the debt level stands at 56% of GDP (the debt level for developing countries recommended by the International Monetary Fund is 40% of GDP).

The development and adoption of innovative financing and business models and creative ways to engage the private sector can shift some of the burden away from constrained public sector institutions. This would encourage those able to pay for health services to turn to private sector service provision and encourage a broader array of service offerings that better suit patient needs. Means testing in public sector facilities could

help identify patients who could be shifted to the private sector. For example, Uganda is conducting a project in Kampala to strengthen private facilities and decongest public ones. As another example, a quarter of the HIV+ population in Kenya are willing and able to pay for services currently provided by donors. Shifting ~60% of these patients to private sector service provision would create additional demand for private sector services (hence bolstering the financial health of these businesses) and reduce donor spend on HIV service provision by ~20% over the next 5 years (Exhibit 14).

EXHIBIT 14

Opportunities to shift HIV treatment from donors to the private sector



SOURCE: McKinsey analysis

Many efforts that employ these approaches are already underway in Kenya, but efforts should continue to further scale them in the future. The SDG Partnership Platform office could become a hub for spreading and assisting other stakeholders in the health system with adopting and implementing innovative approaches. Two particularly promising approaches are:

- **Total market approach (TMA).** Sectors work together to provide health services for all population segments, i.e., the poorest communities receive free products, those with more resources receive partially subsidized products, and those with high resources purchase their products from the commercial sector.

- **Making markets work for the poor (M4P).** Based on the premise that poor people are active market participants (selling their labor or labor-intensive products), this model aims to reduce poverty through market intervention instead of direct intervention. In malaria prevention, for example, donors fund an NGO to provide mosquito nets at heavily subsidized rates. Under the M4P approach, donors identify a local mosquito net manufacturer and work with them to provide nets at an affordable price and market their product effectively (e.g., through social marketing).

Innovative business models can be adopted to improve operational efficiencies and ultimately provide more value for money for the consumer, leading to greater affordability of primary healthcare.

Roadmap

The roadmap to develop and adapt innovative business models is divided into 3 phases occurring in sequence (Exhibit 15).

EXHIBIT 15

Implementation roadmap to promote market-based approaches			
XXX Lead agencies			
3-6 months		6- 24 months	1-5 years
Set-up and coalition building		Rapid idea development	Scale-up of initial ideas and ongoing new idea development
Activities	<ul style="list-style-type: none"> Analyze existing business models (e.g. social marketing models like M4P and TMA) and potential new business models for universal access to quality affordable PHC Organize workshops with global, regional and national domain experts to model out promising business models Facilitate scaling up of an existing promising business model and showcase results to relevant stakeholders Convene relevant stakeholders from the public, private sector and donor community to showcase potential business models and align on initiatives and responsibilities 	<ul style="list-style-type: none"> Support hackathons, innovation incubators, and other test-labs Support validation and action-research of on-going or new PHC business models proof of concept in Kenya Rapidly test, prioritize, and iterate on the most promising approaches Drive adoption of new business model ideas Pair promising models with stakeholder responsible for implementation, performance and monitoring 	<ul style="list-style-type: none"> Establish SDG Innovation Lab in collaboration with Stanford and other strategic partners Coordinate bi-annual Partnership Platform and Multi-Stakeholder Partnership initiatives to create synergies Scale / increase adoption of new business models Monitor implemented business models Provide ongoing support and tracking of new business models to aid success (e.g., in recruitment, introduction to potential partners)
Key stakeholders	<ul style="list-style-type: none"> Kenya Healthcare Federation Development partners Social enterprises SDG Platform 	<ul style="list-style-type: none"> Kenya Healthcare Federation Development partners Social enterprises SDG Platform 	<ul style="list-style-type: none"> Kenya Healthcare Federation Development partners Social enterprises SDG Platform
Milestones	<ul style="list-style-type: none"> Report detailing existing and new business models with feasibility and impact scenarios, with co-branding of all major partners Major convening of stakeholders to align on initiatives and goals Presentation of performance metrics of scaled business model as proof of concept Signed commitment from major partners to implement initiatives 	<ul style="list-style-type: none"> Validation or otherwise of ongoing business models Adoption of business models Pilots of 3-6 promising business models Alignment on stakeholders in charge of each promising model 	<ul style="list-style-type: none"> Hold annual Innovations Labs Multiple examples of scaled adoption of new business models Report on performance of new business models Comparison of new business models performance to forecasted performance

SOURCE: SDG Platform PHC workplan (Oct. 2018)

Provide transaction support to potential investments, particularly at the early stage

To achieve UHC and Kenya's Sustainable Development Goals (SDGs), \$6 billion is needed in private sector investments over the next 10 years (details can be found in report 1). Both the public and private sectors face challenges in progressing investments and deals in the primary healthcare sector. Private sector's decision-making is often hampered by lack of readily available data, as well as uncertainty regarding who should be key touchpoints in government for regulatory questions, potential partnership discussions, and other requests. In the public sector, counties often lack the capacity to identify and assist potential investors, identify and prepare potential opportunities for public-private collaboration, and develop business cases and manage RFP processes.

Hence, to support the private sector investors, the SDG Partnership Platform should, on a continuous basis:

- Track the pipeline of interested investors and potential deals
- Understand the specific needs of investors
- Supporting investor requests, e.g., providing introductions, help building business cases, offering analytics support
- (Through 2019), flag potential deals in the pre-termsheet stage above \$1 million in size to McKinsey for potential dedicated support

To support county capacity to attract private sector investments, including PPPs once the PPP Act is amended, the SDG Partnership Platform should:

- Conduct additional county-level studies (akin to the three county-level studies in this report) to identify private sector investment opportunities
- Support county-level staff to conduct pre-feasibility studies for potential investment opportunities
- Link county-level staff with potentially interested investors

These initiatives are expected to accelerate the timeline and volume of private sector dealmaking in primary healthcare in Kenya.

Roadmap

The roadmap to provide transaction support to private investors and counties has parallel streams of activities (Exhibit 16).

Implementation roadmap to provide transaction support to private investors and counties

	Private sector activities and milestones	County activities and milestones
Activities	<ul style="list-style-type: none"> Identify investment opportunities in primary healthcare Prioritize opportunities based on feasibility, size, impact, and private sector interest Define most attractive private sector investment opportunities Review existing business models to identify replicable success cases for showcasing for investment Set up mechanism for tracking the investor pipeline and investor progress, e.g., weekly internal check, monthly external reach-out to PE funds, bi-weekly investor contact Identify investor needs, e.g. development of business cases, analytics work etc. Provide required support and engage relevant stakeholders In Q3 2018, identify how to support investors post-McKinsey support Track investor pipeline i.e. opportunities that are in early phases to opportunities that have been closed 	<ul style="list-style-type: none"> Set up county investment teams including hiring a point person at each county for interfacing with potential investors Identify potential private sector investment opportunities at the counties and prioritize opportunities based on need Design mechanism for tracking county investment progress Assist counties in designing required business models for prioritized investment opportunities Assist counties in developing business cases for prioritized investment opportunities Train county teams on how to approach investors as well as develop business models and business cases
Milestones to reach	<ul style="list-style-type: none"> A list of potential private sector investments identified and prioritized by attractiveness Mechanism for tracking investor pipeline operational Current success cases showcased for potential investment Investor challenges and bottlenecks identified and solved By end of 2019, facilitate at least 5 investments. Of these, ~2 should be supported by McKinsey Mechanism for pushing investments across the pipeline developed 	<ul style="list-style-type: none"> A county investment team as well as a point person for interfacing with investors set up County level investment opportunities identified and prioritized Mechanism for tracking county investment progress established County challenges and bottlenecks identified and solved

SOURCE: UN SDG Platform; McKinsey & Company

Attract new investors by identifying opportunities for each sub-market and conducting large-scale investor engagement

As noted in Chapter 1, the existing pipeline of primary healthcare investments currently under consideration by investors is thin. In addition to accelerating the timeline of investments already under consideration (which the previous ‘big idea’ seeks to do), more is needed to directly engage new pools of potential investors. These untapped potential investors often hold back due to perceived operational and financial risks in investing in healthcare in Africa, high transaction costs for the deal size (compared to other sectors such as infrastructure), and the time required to develop business cases that have uncertain pay-offs.

A multi-stakeholder initiative to identify promising business cases and create the conditions to accelerate investment in commercially viable private-sector projects would help to address the above challenges. This would involve an investment campaign to showcase detailed, promising business cases to a target audience of investors, followed by a strong drive to publicly pledge and sign letters of intent. Three key groups of stakeholders would need to play vital roles:

- **The Government of Kenya and county governments.** The Government would prioritize investment promotion in specific sub-markets related to primary healthcare and commit to legislative/policy changes to support agreed investment areas, while county governments would be responsible for implementing national policy and engaging with private-sector investors considering sub-national investments.
- **The private sector.** The private sector would invest via investment pledges, subject to realizations of commitments made by the Kenyan public sector.
- **Bilateral, multilateral and private donors.** Donors would act as brokers between the Government and the private sector, support capability-building on the part of the Government, form part of the leadership council and help drive and track implementation of the initiatives.

In working through the promising business cases and identification of target investors, the potential for setting up innovative private sector financing instruments should be explored to unlock the Kenyan capital market, such as social impact bonds and approaching pension funds as possible health sector investors.

The Grow Africa G8 New Alliance for Food Security and Nutrition is an example of a successful multi-stakeholder, collective action approach designed to rapidly increase private sector investment in agriculture in 10 African nations. Forty-nine companies signed letters of engagement for a total investment of \$3 billion that reached 8.2 million farmers (Exhibit 17).

Grow Africa G8 New alliance for Food Security and Nutrition

Situation and approach

- **Private sector investment in agriculture** in African countries was **lagging** due to perceived operational and financial risk, non-business-friendly environment, inconsistent policies, limited infrastructure and lack of trust
- In 2012, in response to **growing concerns about global food security and lack of investment in agriculture**, the Grow Africa "New Alliance for Food Security and Nutrition" was launched at the G8 summit
- This is a first-of-its-kind, African-led private sector **investment campaign** employing a rapid process to **accelerate commercially viable private sector projects** in-line with country agricultural development priorities
- **Collective action approach** achieved through efforts by the three key stakeholders:
 - **10 African nations:** Pledged to refine policies in order to improve investment opportunities
 - **40 private sector partners:** Disbursed investment pledges once agreed conditions are met by the G8 and the African nations
 - **G8 countries:** Committed to support the preparation and financing of agricultural infrastructure projects

Process and impact



SOURCE: Symposium on Global Agriculture and Food Security – Advancing Food and Nutrition Security at the 2012 G8 Summit; May 18, 2012; "More than \$3 billion in Private Sector Investment for the New Alliance for Food Security and Nutrition," USAID Fact Sheet, 18 May 2012

Driving a similar initiative for the primary healthcare sector in Kenya entail the Kenyan government proactively reaching out to companies and attracting investments aligned with national and county priorities, building long-term investment partnerships between the private and public sectors, and establish innovative approaches to investor engagement and expansion of the Kenyan private sector healthcare market.

Roadmap

The roadmap to attract new investors is divided into four phases over five years (Exhibit 18).

Implementation roadmap to attract new investors

	4-6 months	3-4 months	4-6 months	6-12 months
	Business case development and pre-prep	Event preparation	Follow-up	Monitor and support
Activities	<ul style="list-style-type: none"> Form leadership body, including national and county representatives and other potential partners Assess investment landscape and identify new/underutilized sources of finance and models to increase investment Develop business cases for prioritized sub-markets Identify barriers to investment and policy / legislative changes required Identify large anchor investor willing to co-brand the initiative 	<ul style="list-style-type: none"> For each sub-market: <ul style="list-style-type: none"> Identify international and regional companies to invite Contact companies to confirm participation Identify priority investors 	<ul style="list-style-type: none"> For each sub-market: <ul style="list-style-type: none"> Identify potential projects for LOIs Conduct follow-up calls Refine draft LOIs Set up face-to-face country-company discussions to finalize LOIs and next steps Set concrete deadlines with public visibility 	<ul style="list-style-type: none"> For each sub-market: <ul style="list-style-type: none"> Monitor engagement between private investors and host government Monitor investment interest and support GoK to maintain investor support through e.g., showcasing of successful investments and highlighting potential new investment opportunities
Key stakeholders	<ul style="list-style-type: none"> Private sector National and county governments Potential investors Donor agencies 	<ul style="list-style-type: none"> Private sector National and county governments Potential investors Donor agencies 	<ul style="list-style-type: none"> Private sector National and county governments Potential investors Donor agencies 	<ul style="list-style-type: none"> Private sector National and county governments Potential investors Donor agencies
Milestones	<ul style="list-style-type: none"> Formation of leadership body Assessment of current investment landscape Identification of priority sub-markets Detailed outline of business cases Identification of barriers to investment and policy / legislative changes required Commitment from private sector player to act as anchor investor and co-brand 	<ul style="list-style-type: none"> Identification of key companies and investors Confirmed list of attending companies Confirmed list of attending investors 	<ul style="list-style-type: none"> Signed investment pledges from private sector 	<ul style="list-style-type: none"> Regular reporting of status of investments to leadership council Showcasing of successful investments in international forums

SOURCE Symposium on Global Agriculture and Food Security – Advancing Food and Nutrition Security at the 2012 G8 Summit; May 18, 2012; “More than \$3 billion in Private Sector Investment for the New Alliance for Food Security and Nutrition,” USAID Fact Sheet, 18 May 2012

Raise and enforce quality standards for distribution, pharmaceuticals and diagnostics

Industry experts and business leaders cite the lack of quality standards enforcement as a major impediment to private sector investment, particularly in the sub-markets of distribution, pharmaceutical manufacturing, and diagnostics. This lack of quality enforcement has created an unfair playing field, as quality players find it difficult with sub-standard services and products that are offered at a lower price.

Distribution

Drug expiry and wastage are common because of substandard storage and transport. The distribution market is very fragmented, with the multiple layers between the manufacturers and patients creating leakage and opportunities for counterfeit or expired products to enter the market. In 2017, a market survey by the Kenya Association of Pharmaceutical Industry (KAPI) found an 8% prevalence rate of sub-standard medication. Experts believe this rate may be higher in reality.

Pharmaceuticals

According to experts, the Kenyan pharmaceuticals market has a high rate of sub-standard and counterfeit drugs. Many of these sub-standard drugs are due to leakages in the supply chain as noted above, and other counterfeit and sub-standard products are brought in by unscrupulous importers. Domestic manufacturing also suffers from uneven quality, as non-compliance with national Good Manufacturing Practice (GMP) regulations remains a challenge. A study by the United Nations Industrial Development Organization (UNIDO) shows that over 70% of pharmaceutical companies sampled achieved a GMP rating of C5, i.e., “high risk”. Producing high quality drugs is more expensive than producing counterfeit or lower quality drugs, so cracking down on substandard and counterfeit drugs would create a more even playing field for businesses featuring quality manufacturing.

Diagnostics

Anecdotally, experts in the diagnostics field question the accuracy rate of diagnostic lab testing across Sub-Saharan Africa. There have been no large-scale studies about the accuracy of lab testing in Kenya, but a study⁶ in Uganda revealed that ~22% of lab tests are inaccurate. In Kenya compliance with strict quality standards is uneven at best, with only two domestic labs certified by the International Organization for Standardization (ISO).

Two initiatives could help to overcome these quality enforcement challenges:

- **Assess quality levels and enforcement capacity.** This involves conducting a quality audit to understand the quality gaps in distribution, pharmaceuticals and diagnostics, followed by capacity benchmarking to understand where the capacity gaps lie (e.g., number of WHO-qualified inspectors, regulatory agency budgets).
- **Reform quality standards enforcement.** Based on the above assessment, develop an implementation plan to improve quality levels, present it to stakeholders for syndication, and implement. The plan would include budget reforms (e.g., increases in the pharmacy and poisons boards budget), capability-building (e.g., train inspectors on WHO PQ/GMP guidelines), policy changes (e.g., amendments to PPB responsibilities to strengthen enforcement) and ongoing measurement and evaluation, including periodic quality audits to measure progress, identify gaps, and review reform plans.

Roadmap

The roadmap to raise and strengthen enforcement of quality standards in distribution, pharmaceuticals and diagnostics has three phases over two years (Exhibit 19).

⁵ GMP compliance rating system where the lower the compliance with WHO GMP guidelines, the higher the risk rating. (A - low risk company, B - medium risk company and C - high risk company)
Amukele TK, Jones R, Elbireer A, Test Cost and Test Accuracy in Clinical Laboratories in Kampala, (2018)

Implementation roadmap to raise and strengthen enforcement of quality standards in distribution, diagnostics, and pharmaceuticals

	3-6 months	6-12 months	12-24 months
	Assessment	Planning and alignment	Implementation
Activity	<ul style="list-style-type: none"> Undertake quality audit on distribution, diagnostics and pharmaceuticals to identify gaps Undertake capacity benchmarking to identify gaps and recommendations Convene relevant stakeholders and test findings Mobilize existing enforcement agencies to begin working on identified enforcement gaps using existing capacity while reforms take place 	<ul style="list-style-type: none"> Develop implementation roadmap and present findings to relevant parties Align parties on implementation roadmap and requirements for each stakeholder group 	<ul style="list-style-type: none"> Roll out implementation plan Modify implementation where greater efficiency can be realized Monitor implementation and benchmark with plan Set up reporting structure to ensure regular updates on quality enforcement
Key stakeholders	<ul style="list-style-type: none"> Ministry of Health Pharmacy and Poisons Board FKPM¹ KAPI² Customs authority Development partners 	<ul style="list-style-type: none"> Ministry of Health Pharmacy and Poisons Board FKPM¹ KAPI² Customs authority Development partners 	<ul style="list-style-type: none"> Ministry of Health Pharmacy and Poisons Board FKPM¹ KAPI² Customs authority Development partners
Milestones to reach	<ul style="list-style-type: none"> Completion of quality audit Completion of capacity benchmarking and identification of gaps and recommendations Assessment of findings by key stakeholders Ramp up of quality standards enforcement using existing capabilities 	<ul style="list-style-type: none"> Implementation roadmap detailing steps and stakeholder requirements Syndication of stakeholders on next steps with confirmation through signed commitments 	<ul style="list-style-type: none"> Regular reports on implementation progress with modification recommendations where necessary Monitoring of quality standard enforcement with regular reports Demonstrated improvement of quality in distribution, pharmaceutical manufacturing and diagnostics Demonstrated improvement of enforcement of quality standards

1 Federation of Kenyan Pharmaceutical Manufacturers 2 Kenya Association of Pharmaceutical Industries

Create a high-quality digital health data platform to inform and de-risk private sector investment decision-making

Recent advances in health Information and Communications Technology (ICT) in Kenya include launching electronic health projects in ~40 counties and using mobile health (mHealth) to provide access to healthcare financing and remote clinical care through, e.g., the M-TIBA health savings plan. Policies such as the Kenya National e-Health Policy and the National Fiber Optic Backbone Infrastructure have been positive steps in creating the necessary enabling environment for the health ICT landscape. In addition, the Kenya Health Data Collaborative (KHDC), together with the Ministry of Health and its partners, have reviewed progress towards the overall goal of one well-functioning country-led health information system and have planned to carry out a Harmonized Health Facility Assessment and drive through data management legislation by 2020.

However, interviews with potential private sector investors highlighted two big challenges: the limited availability of granular, sub-national disease burden data to enable private sector decision-making on investments, and the lack of national standards and frameworks for establishing a common, quality assured platform for health data.

Some contributing causes to these challenges include limited linkages between agencies that work on health ICT; market fragmentation and duplication of vertical e-health activities focused on particular disease areas (e.g., HIV); lack of interoperability between e-health systems; and insufficient technical skills at the frontline and county level to collect, analyze and utilize electronic health data and mobile health innovations.

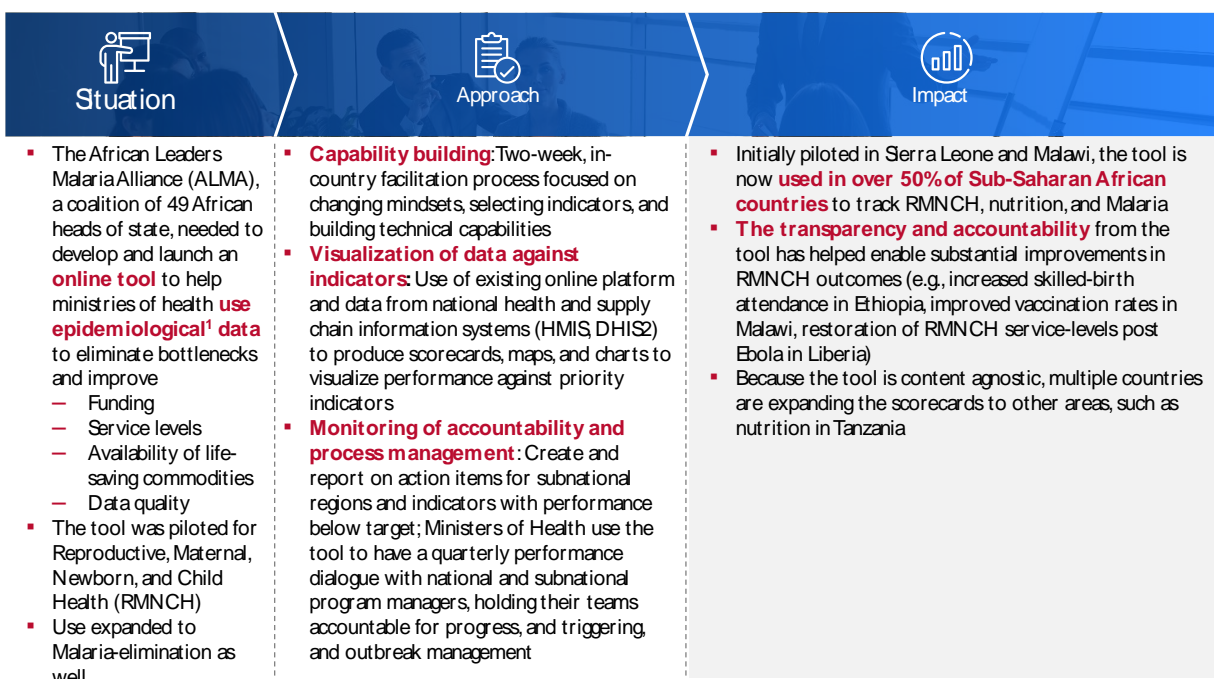
Creating a national standard for the frequency, quality and interoperability of data would help to address these challenges. This would entail:

- Passing the proposed data management legislation by October 2020;
- Setting robust frameworks to enable collaboration between agencies;
- Creating governance structures and data services to ensure interoperability between different systems;
- Designing and implementing change and performance management for all focus areas and health interventions;
- Hiring technical experts at every level, including counties;
- Training all health workers in the minimum skills required to handle data, information and innovations at an institutional level, e.g., Kenya Medical Training College, or at a facility level, e.g., in-service nurses.

The above activities would give potential private sector investors access to high quality data, e.g., disease burden data, on which to base informed investment decisions.

One example where this type of health data initiative has been successfully implemented is the African Leaders Malaria Alliance (ALMA), which created an online tool to improve data quality, service levels, and commodity availability. It conducted capability-building and monitored accountability and process management to create a data tool for Reproductive, Maternal, Newborn, and Child Health (RMNCH). The tool has been used in over 50% of sub-Saharan African countries to track and improve RMNCH outcomes (Exhibit 20).

ALMA's use of electronic data to track key maternal and child health metrics



¹ Data relating to analysis of the distribution and determinants of health and disease conditions in defined populations

Roadmap

The roadmap to create a high-quality digital health data platform runs in three phases over three years (Exhibit 21).

Implementation roadmap to create a high-quality digital health data platform

	1-6 months	6- 12 months	1-3 years
	Set up	Build, deploy and pilot in UHC pilot counties	Scale up nationally
Activity	<ul style="list-style-type: none"> Map out existing data systems and initiatives and identify data and capability gaps Catalyze support¹ to the Health Observatory team for defining governance structures and operating models for management of data Create robust framework that allows for collaboration amongst agencies Determine change management including a training structure for health workers Define data collection process and priority counties for piloting and align with 2019 census collection process Amend private health facility licensing renewal regulations to include a requirement for data submission 	<ul style="list-style-type: none"> Pilot developed data collection process in UHC pilot counties Deploy data assessment (for accuracy etc.) and integration processes in UHC pilot counties Build capabilities in select counties through training Assess lessons learnt and make adjustments to approach before national scale-up 	<ul style="list-style-type: none"> Deploy model for national scale-up Continue to deploy change management processes and track progress and lessons learnt Fast-track governance and ways of working for scaling up Scale-up training and data collection processes in the entire country
	Data management legislative process in parallel with all activities		
Key stake-holders	<ul style="list-style-type: none"> Health Observatory team Ministry of ICT Ministry of Health Council of Governors Office of the Deputy President 	<ul style="list-style-type: none"> Health Observatory team Ministry of ICT Ministry of Health County governments of UHC pilot counties Office of the Deputy President 	<ul style="list-style-type: none"> Health Observatory team Ministry of ICT Ministry of Health County governments Office of the Deputy President
Milestones to reach	<ul style="list-style-type: none"> Data and capability gaps identified Data governance structures and frameworks defined Data collection process defined and set up 	<ul style="list-style-type: none"> Data collection strategies as well as governance structures implemented in UHC pilot counties Capability building of health workers around digital data established 	<ul style="list-style-type: none"> Dashboard for tracking national health data set up Performance of all counties (e.g granular disease burden data) tracking capability set up

¹ Support catalyzed from e.g. Office of the Deputy President, Council of Governors etc.

SOURCE: Roadmap for digitizing health in Ethiopia; expert interviews

County-level investment opportunities and actions needed to encourage investment

Counties are critical stakeholders in securing and driving private sector investment into primary healthcare. To better understand the current county-level opportunities and barriers to private sector investment, we selected three counties — Isiolo, Kisumu, Makueni — as example contexts to explore. In these three counties, we examined the enabling environment for private sector investments, potential investment opportunities, and the incentives and other activities required to encourage investment. These counties were shortlisted on the basis of specific criteria, including being part of the UHC pilot (as with Isiolo and Kisumu) and/or being an innovative primary healthcare hub (as with Makueni County), and collectively being representative of different geographies and GDP sizes. That said, these counties were studied as examples for this report and does not reflect any judgment on their relative promise for private sector investment vis-a-vis other counties.

Our study of these counties indicated that four sub-markets offer promising county-level private-sector investment opportunities:

- **Outpatient and maternity care.** Partner with county governments to rehabilitate and expand value-added service offerings in outpatient facilities.
- **Risk pooling.** Set up financially sustainable county-based health insurance packages as a complement/top-up to NHIF coverage.
- **Diagnostics.** Enter into agreements with counties to place and maintain equipment in public labs, or provide outsourced lab testing services for public health facilities.
- **Medical education.** Partner with government institutions to provide a broader offering of quality training for healthcare professions.

Some counties are already offering incentives, e.g., land on which to build medical education institutions. But they could do much more to facilitate investment. For all four of the opportunity types described above, counties could conduct data collection and pre-feasibility studies to jump-start private sector interest in these opportunities. They could also define in advance what structure of private sector participation and involvement would be most helpful for the county's health needs and viable from a private-sector investment perspective. Most counties currently lack a dedicated person to define these business opportunities, engage with investors and other relevant bodies such as the PPP Unit in the National Treasury, and identify incentives for specific deals. Hiring a health investments point person would ensure that these and other investment attraction activities move forward expeditiously.

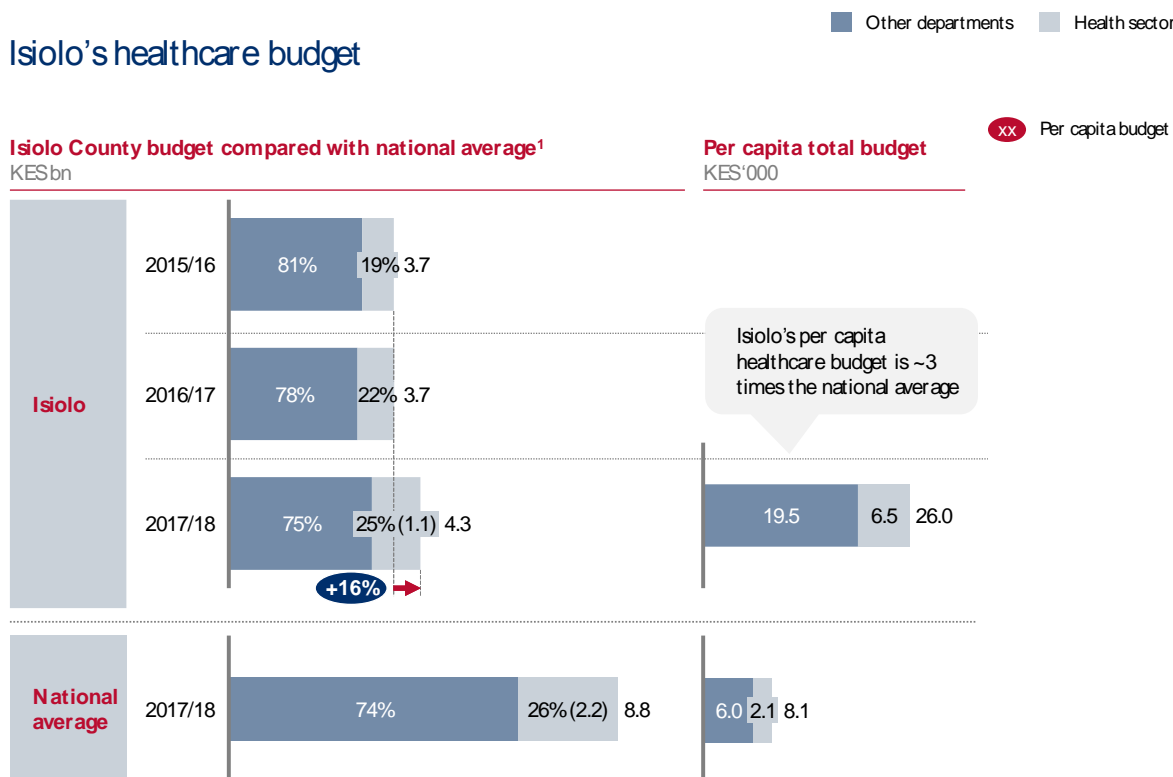
Details of the opportunities in each county are described below.

ISIOLO COUNTY

Isiolo is located in Eastern Province. It has a population of 167,000 and GDP per capita of KES 95,000 (2018). Its 50 health facilities are served by 19 doctors per 100,000 people (2012) in line with the national average of 20, and 120 nurses per 100,000 people (2012), which is substantially higher than the national average of 90. Total government health spend for the county is KES 613 million (2014), half that of the national average in real terms. However, given its small population, this equates to three times the national average on a per capita basis (Exhibit 22). NHIF coverage is 20%.

EXHIBIT 22

Isiolo's healthcare budget



¹ Average of all counties budget

SOURCE: 2015/16, 2016/17, 2017/18 County Governments Budget Implementation Review Report

Despite Isiolo's high per capita spend on healthcare, the share of budget dedicated to recurrent expenses is 82%, slightly higher than the national average of 79%. Recurrent expenditure mainly goes to salaries and medical supplies, which should be correlated with population size. This suggests an opportunity for Isiolo to lower the recurrent proportion of its healthcare budget and redirect the funds to its healthcare development budget. This would provide the fiscal space to invest in PPPs or collaboration models, rehabilitate healthcare infrastructure and launch other capital projects. Estimates suggest that if Isiolo were to fund its recurrent budget in line with the national average on a per capita basis (KES 1,600), it could free up approximately KES 0.63 billion a year for development purposes.

With regards to disease burden and healthcare provision, Isiolo's outcomes are mixed. It outperforms the national average on child health and nutrition, possibly thanks to significant donor support. However, it falls below the national average in maternal health, perhaps because of cultural beliefs that reject the use of contraceptives and hospital child delivery.

In Isiolo, there are four sub-markets that offer promising private-sector investment opportunities:

- **Diagnostics.** Isiolo's nine labs are not equipped to perform basic lab tests, e.g., TB testing. Machinery is old, and reagents are lacking. It is seeking private-sector investment to build its own labs. There is an opportunity to enter into a public-private collaboration agreement to place and maintain equipment, e.g., by adopting the Lancet-Voi model, where Lancet Labs, in partnership with the county government of Taita Taveta, employed a partnership model to upgrade the Voi County Referral hospital's main laboratory and train diagnostics staff in exchange for a share of the laboratory revenues for four years before handing back full control to the county. Alternatively, lab testing services can be outsourced to private sector lab companies.
- **Outpatient and maternity care.** Outpatient facilities are not easily accessible (some are located 60km or more apart) and are under-equipped. Public facilities lack maternal units and are forced to use unequipped rooms. Isiolo county seeks a private-sector partner to rehabilitate outpatient and maternity care facilities, creating an opportunity for private players to offer value-added services to patients.
- **Medical education.** Isiolo has only one doctor per sub-county compared with the national average of 10 per sub-county. Demand for medical personnel at healthcare facilities is high. The Kenya Medical Training College (KMTC) has established a college on donated county land that offers one medical diploma course (in medical records) with plans to extend its offering. An opportunity exists to partner with KMTC to expand and complement its current offering by providing advanced medical training.
- **Risk pooling.** Isiolo is a pilot county for UHC and is required by the Government to begin the NHIF registration by 1 November. To date, there has been very low NHIF uptake, which the county attributes to affordability concerns. Further analysis is required to confirm the root cause. The county is interested in finding a private-sector partner to set up and manage a county healthcare coverage package.

To realize these opportunities, the county needs to put three enablers in place. First, it should hire a point person to interact with potential investors and pursue Public Private Partnership (PPPs). Second, it should establish safeguards to ensure accountability and transparency in PPPs to counter poor public perception, e.g., the belief that PPPs enable corruption. This could include ensuring public participation, consultation with the Ministry of Health, and sensitizing county members on the need for, and potential benefits of, public-private collaboration. Third, it should assess the potential of lowering

the recurrent proportion of its healthcare budget and redirect funds to the healthcare development budget.

We have developed a high-level roadmap outlining the key activities per sub-market required by the county to pursue private-sector investment opportunities (Exhibit 23).

EXHIBIT 23

Isiolo County implementation roadmap

Sub-market	Activities to pursue private sector opportunities	2019				2020				2021				2022			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Diagnostics	Establish PPP/PPC for diagnostics																
	<ul style="list-style-type: none"> Assess which PPP/PPC model to employ i.e. placement and maintenance versus outsourcing Structure the parameters of the PPP/PPC and run RFP process Award contract and monitor implementation 																
Outpatient & maternity care	Employ PPP model to rehabilitate outpatient facilities and provide capacity building and training at scale																
	<ul style="list-style-type: none"> Assess the viability of setting up outpatient facility rehabilitation model in Isiolo Engage private sector players to review the investment opportunity Modify the model for Isiolo, develop the business case and secure investors Set up the model for rehabilitating facilities and monitor 																
Medical education	Expand KMTC offering																
	<ul style="list-style-type: none"> Hold initial discussions with KMTC to understand potential for expansion Engage private sector players in the medical education sector Design key roles for each party Develop agreements and secure investment Implement and monitor 																
Risk pooling	Set up an affordable healthcare package																
	<ul style="list-style-type: none"> Conduct assessment of reasons behind low uptake of NHIF in Isiolo Analyze the feasibility of setting up an affordable healthcare package for the county Engage the private sector and assess possibility of private sector managing the insurance offering Design a new coverage package and operating framework with private sector participation Secure funding and develop capacity for roll out Implement and monitor 																
Cross-cutting enablers	Enable county governments to pursue PPPs																
	<ul style="list-style-type: none"> Establish safeguards to ensure accountability and transparency in PPPs such as involving the MoH and establishing public participation mechanisms Sensitize members of the county on the need for public-private collaborations and potential benefits; publicize success stories Hire a point person for interfacing with potential investors Assess potential of lowering recurrent proportion of healthcare budget and redirect funds to healthcare development budget Review county policies to identify those that are restricting investment and work towards making necessary amendments 																

KISUMU COUNTY

Kisumu lies in Nyanza Province and has a population of approximately 1.3 million and GDP per capita of KES 132,000 (2018). It has 250 health facilities served by 14 doctors per 100,000 people (2012), which is much lower than the national average of 20, and 28 nurses per 100,000 people (2012), which is less than one-third of the national average of 90. Total government health spend is KES 2.4 billion, and NHIF coverage is relatively high at 32% (2014) compared to the national average of 17%.

Kisumu's healthcare budget allocation to healthcare is 27%, in line with the national average of 26%. At 94%, its allocation to recurrent expenditure is the second-highest

amongst all counties; the national average is 79%. This leaves just 6% of the budget for investment in development/expansion projects, suggesting a need to consider re-allocating a portion of the budget from recurrent expenditure to development expenditure.

Disease burden and healthcare provision outcomes are mixed. Metrics such as nutrition, child health and maternal health are higher than the national average, while indicators for HIV, malaria and tuberculosis are below average.

As a UHC pilot county, Kisumu has already completed all governance and planning steps, including setting up Oversight and Steering Committees, and developing UHC roadmaps and implementation plans. However, implementation is delayed as funds have not yet been disbursed by the Government.

Three of the sub-markets offer opportunities for private sector investment:

- **Diagnostics.** Kisumu offers a limited range of tests through its public facilities. Reagent stock-outs are frequent, and tests are poor in quality. Private labs are unaffordable for much of the public and therefore inaccessible many patients. An opportunity exists to enter into a public-private collaboration agreement to place and maintain equipment by, e.g., adopting the Lancet-Voi model or outsourcing lab testing services.
- **Outpatient and maternity care.** Kisumu lacks infrastructure and proper equipment in many outpatient and maternity care facilities. One potential model would be to engage the private sector in rehabilitating outpatient and maternity care facilities, which would then be able to offer additional value-added services to patients.
- **Risk pooling.** Kisumu remains a relatively low-income county, with 51% of its population living on less than \$2 a day. With less than 1% of the population covered by private insurance and only 31% under NHIF coverage, most people have no safety net for severe illnesses that tend to be very expensive. An opportunity exists to collaborate or partner with the county to provide catastrophic insurance coverage.

Four enablers at the county level would support the above investments. Kisumu County should hire a point person to interact with potential investors and pursue Public Private Partnership (PPPs); establish mechanisms to ensure accountability and transparency in PPPs by ensuring public participation and consultation with the Ministry of Health; identify and assess business cases/return on investment (ROI) for public-private collaboration; and assess potential of lowering recurrent expenditure proportion and redirect funds to development expenditure.

We have developed a high-level roadmap outlining the key activities per sub-market required by Kisumu to pursue private-sector investment opportunities (Exhibit 24).

EXHIBIT 24

Kisumu County implementation roadmap

Sub-market	Activities to pursue private sector opportunities	2019				2020				2021				2022			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Diagnostics	Establish PPP/PPC for diagnostics																
	<ul style="list-style-type: none"> Assess which PPP/PPC model to employ i.e. placement and maintenance versus outsourcing Structure the parameters of the PPP/PPC and run RFP process Award contract and monitor implementation 																
Outpatient & maternity care	Employ PPP model to rehabilitate outpatient facilities and provide capacity building and training at scale																
	<ul style="list-style-type: none"> Assess the viability of setting up outpatient facility rehabilitation model in Isiolo Engage private sector players to review the investment opportunity Modify the model for Kisumu, develop the business case and secure investors Set up the model for rehabilitating facilities and monitor 																
Risk pooling	Provision of county wide catastrophic insurance coverage																
	<ul style="list-style-type: none"> Conduct assessment of reasons behind catastrophic occurrences Analyze the feasibility of setting up an affordable catastrophic insurance package for the county Engage the private sector and assess possibility of private sector managing the insurance offering Design a catastrophic coverage package and operating framework with private sector participation Secure funding and develop capacity for roll out Implement and monitor 																
Cross cutting enablers	Enable county government to pursue PPPs																
	<ul style="list-style-type: none"> Involve MoH and design public participation mechanisms Hire and train a point person to interface with investors Hold monthly meetings, coordinate county engagement with investors and respond to investor requests for support Identify and assess business cases for public-private collaboration Assess potential of lowering recurrent proportion of healthcare budget and redirect funds to healthcare development budget Review county policies to identify those that are restricting investment and work towards making necessary amendments 																

MAKUENI COUNTY

Makueni County in the Eastern Province has a population of approximately one million and GDP per capita of KES 103,000 (2018). Its 230 health facilities are served by 15 doctors per 100,000 people (2012), lower than the national average of 20, and 27 nurses per 100,000 people (2012), less than one-third of the national average of 90. Total government health spend is KES 1.9 billion and NHIF coverage is 27% (2014), 10% higher than the national average.

At 28%, Makueni's healthcare development budget allocation is slightly higher than the national average of 26%. Its development expenditure spiked in fiscal year 2016/2017 because of increased investment in primary care facilities and Makueni Care, a county-driven insurance scheme that covers hospital care.

Disease burden and healthcare provision outcomes are higher than the national average, possibly because of strategic partnerships to establish 57 new care and treatment centers and 72 new prevention of mother-to-child transmission sites.

However, Makueni's challenges include inadequate healthcare facilities that are widely dispersed and poorly equipped. AMREF and Philips are working with the county to set

up a PPP in which Philips will upgrade the equipment at three outpatient facilities, AMREF will train the healthcare personnel, and the county will manage policy, regulation and quality. In addition, Makueni Care faces huge sustainability and feasibility challenges since it is heavily financed by the county government allocations, and there is reportedly a high rate of adverse selection (i.e., patients who only sign up once they are already sick). There is also a concern about the low rate of uptake of Makueni care, with only 10% of households covered.

In Makueni County, four types of investment opportunities are promising:

- **Outpatient and maternity care.** Makueni has few high-quality outpatient centers and they are often underequipped. The county seeks to engage with private-sector investors to rehabilitate its primary healthcare facilities. Although the Philips-AMREF project is still in the feasibility stages, there is an opportunity to study the model and assess potential for larger scale-up.
- **Medical education.** As noted above, Makueni's health sector is grossly understaffed, particularly for the nursing cadres. To address this problem, the county has donated 50 acres of land to AMREF to establish a university to train doctors and nurses. An opportunity exists to partner with AMREF and the county to provide training for health professions.
- **Risk pooling.** Makueni has prioritized UHC by establishing Makueni Care for residents who cannot afford the NHIF. However, due in part to high poverty levels, there is little uptake (10% at the end of 2017), with patients only paying for Makueni Care when they fall sick and hence jeopardizing the financial sustainability of the scheme. The financial underpinnings and performance of Makueni Care should be carefully evaluated, and its design should be adjusted to increase enrollment and improve financial sustainability. Care should also be taken to identify potential private sector participation opportunities, such as top-up coverage that could be offered by private sector to layer on top of the county-offered basic package.
- **Distribution.** Historically, the cold chain distribution infrastructure in Makueni has largely been provided by donors. Recently, Makueni county committed to taking ownership of the vaccines cold chain. This could be structured as a outsourced contract to the private sector.

To realize these opportunities, Makueni must ensure three enablers are in place. It should hire a point person to interact with potential investors and pursue Public Private Partnership (PPPs); establish mechanisms to ensure accountability and transparency in PPPs by ensuring public participation and consultation with the Ministry of Health; and identify and assess business cases/return on investment (ROI) for public-private collaboration.

We have developed a four-year roadmap outlining the key activities per sub-market required by Makueni to pursue private-sector investment opportunities (Exhibit 25).

Makueni County implementation roadmap

Sub-market	Activities to pursue private sector opportunities	2019				2020				2021				2022			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Outpatient & maternity care	Assess opportunity to scale up/ replicate PPP model to rehabilitate outpatient facilities and provide capacity building and training at scale																
	<ul style="list-style-type: none"> Assess the achievements, challenges and barriers of the model and potential of replicating Hold discussions with private sector based on assessment Engage potential private sector investor Implement scale-up/ replication of the model 																
	Partner with training providers for establishment of a medical university																
	<ul style="list-style-type: none"> Hold initial discussions with training providers on setting up university and roles of each party Conduct study on business case and feasibility in Makueni County Engage private sector players and training providers for potential collaboration and definition of deal type Find private sector partner and structure investment Implement and monitor 																
Risk pooling	Evaluate Makueni Care																
	<ul style="list-style-type: none"> Conduct rigorous assessment of Makueni care including costing structure Analyze assessment on potential opportunities from making the insurance cover profitable and accessible to the poor Identify and engage with potential private sector investors Determine how to partner with identified private sector Implement and monitor 																
	Explore models involving contracting private sector for cold chain																
	<ul style="list-style-type: none"> Analyze vaccine supply chain in the county Assess proposed cold chain distribution structure Run tender for private sector to provide cold chain services Monitor service levels and performance management of the resulting system 																
Cross-cutting enablers	Enable county government to pursue PPPs																
	<ul style="list-style-type: none"> Involve MoH and design public participation mechanisms Hire and train a point person to interface with investors Hold monthly meetings, coordinate county engagement with investors and respond to investor requests for support Identify and assess business cases for public-private collaboration Review county policies to identify those that are restricting investment and work towards making necessary amendments 																

RECOMMENDATIONS FOR THE PRIVATE SECTOR TO ENGAGE AT COUNTY LEVEL ACROSS KENYA

The private sector can engage with the counties in several ways to invest in primary healthcare across Kenya. To capture the county-level investment opportunities, companies will need to be prepared to allocate time and staff resources to collect the necessary data (e.g., on current and potential volumes, pricing) needed for business case development, as these data are not available typically from county governments or third-party sources. As a general rule, potential investors should engage a county early in the investment process and conduct thorough feasibility studies. In addition, most of the opportunities will require a public tendering process (either for outsourced contracts or PPPs), so companies should be prepared to prepare and submit bids as part of these processes.

Exhibit 26 shows the actions that companies will need to undertake to pursue the identified county-level investment opportunities.

County-level implementation roadmap for private investors

Sub-market ¹	Activities to pursue county investment opportunities	2019				2020				2021				2022			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Medical education	Establish a medical university or college in e.g. Isiolo and/or Makueni																
	<ul style="list-style-type: none"> Hold discussions with county health and education officials on setting up of a medical school Conduct visits to education centers to understand feasibility and develop business case, including understanding the market size, affordability and willingness to pay Agree with county on either PPP or RFP arrangement and follow (see below) 																
Outpatient & maternity care	Employ PPP model to rehabilitate outpatient facilities and provide capacity building and training at scale																
	<ul style="list-style-type: none"> Assess the viability of setting up outpatient facility rehabilitation model in the county(ies) of interest, including assessing willingness to innovate, market size and path to financial sustainability Engage private sector players to review the investment opportunity Modify the model for the county, develop the business case and clarify roles and financial contributions Set up the model for rehabilitating facilities and monitor 																
Diagnostics	Partner with e.g. Isiolo and/or Kisumu counties for placement of diagnostic equipment																
	<ul style="list-style-type: none"> Hold discussions with county lab officials on placement of lab equipment Conduct lab visits to understand feasibility and develop business case, including understanding tests offered, current state of facility equipment, current and potential volumes of lab tests, and pricing and develop business case Agree with county on either PPP or RFP arrangement and follow (see below) 																
PPP process	Follow the full PPP process																
	<ul style="list-style-type: none"> Meet county officials to express interest and present business case for a PPP Await RFP release, develop and submit RFP response to the county Await approval from the PPP steering committee Financial close 																
RFP process	Follow the full RFP process																
	<ul style="list-style-type: none"> Meet county officials to express interest and present business case for provision of services Await RFP release, develop and submit RFP response to the county Await evaluation of RFP responses and contract award notification Conduct negotiation and contracting 																

¹ Risk pooling not included as counties need to analyze and enact reforms to define structure of private sector participation before private sector can usefully develop business cases

Stakeholder syndication

We have syndicated the investment opportunities and enablers described in this report with a wide range of experts and more than 30 stakeholders. Based on their input, we have refined and adapted the roadmaps to fit the reality on the ground and build on existing efforts.

The experts and stakeholders consulted include representatives from:

- Executive Office of the President;
- Office of the Deputy President;
- Ministry of Health;
- Universal Health Coverage Secretariat;
- Council of Governors;
- PPP Unit of National Treasury;
- Higher Education Loans Board;
- Kenya Healthcare Federation;
- Healthcare insurance providers;
- Private sector investors in Kenya primary healthcare;
- County Chief Executive Committee Members;
- County Chief Officers of Health Services and Sanitation;
- Deputy Directors of Preventive and Curative Health;
- Deputy Directors of Logistics and Administration;
- NGOs and Foundations;
- Faith-based organizations;
- Other health officials;
- Patients;
- Employees at healthcare providers.

In addition, we presented parts of this work and received feedback at two fora:

- The Healthcare CEO Roundtable, co-hosted by McKinsey and the Kenya Healthcare Federation;
- The SDG Partnership Platform Finance and Business Modeling Workshop.

Further work by the UN's SDG Partnership Platform will be needed to continue syndicate the results of this work to build buy-in, reflect the evolving healthcare landscape, and implement the roadmaps detailed in this report.